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# Nation's Business

## FEATURES



PHOTO: T. MICHAEL KEZA

**Health-care costs** are skyrocketing for many companies, including the tool-rental firm owned by Philip and Bertha Leber, center. Philip Leber wonders "how a small business can survive" such expenses. *Cover Story, Page 18.*



PHOTO: © MICKEY OSTERREICHER—BLACK STAR

**Freer trade with Canada** will benefit Jess Fitzpatrick's lumber company and other small firms. *Page 67.*

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## Editor's Note

### DEPARTMENTS



PHOTO: © BRIAN DRAKE

Oregon wine producers Ginny and David Adelsheim with their daughter, Elizabeth. *Making It*, Page 14.

## Brighter, Fresher, Crisper



PHOTO: T. MICHAEL KEZA

Designers Massimo Vignelli and Michael Bierut of New York created our new look.



PHOTO: T. MICHAEL KEZA

Nation's Business artists Thomas E. Snoreck, Mary L. Czarnik, Richard C. Freund, Hans A. Baum, and Angela Reed Breese.

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Cover Design: Vignelli Associates  
Cover Photo: T. Michael Keza

Four years ago this month, *Nation's Business* introduced the most extensive graphics redesign in its history, along with major editorial changes. Those steps, we said, "make *Nation's Business* still more contemporary, more relevant, and more useful."

Readers enthusiastically endorsed the changes. But we know that a publication on the cutting edge of entrepreneurship must remain as relevant and innovative as the businesses it serves.

With this issue, we implement refinements designed to help us remain effective and contemporary. Our cover is brighter, fresher, crisper, with very strong headline type and a more distinctive logo.

This fresh look was created by the international design firm of Vignelli Associates of New York, which also did our dramatic redesign four years ago. Our own art department not only contributes to graphics changes but also implements them on a continuing basis. These hard-working and caring people are important members of our team.

Editorial changes include the addition of Dateline Washington, an update on government actions affecting business. The expansion of Direct Line was dictated by your tremendous response to this feature. And a new department, Free-Spirited Enterprise, adds a lighter touch.

The overriding purpose of both the graphic and editorial changes is to maintain our place in your lives and businesses.

A reader has told us: "*Nation's Business* really seems to have a heart." That reader likes the way that we combine entrepreneurial information "with the details and circumstances of real life and real people." Maintaining that link with readers remains our constant goal.

*Robert T. Gray*

Robert T. Gray  
Editor

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# Letters

## Bring Order To The Courts

I believe the upsurge in employee litigation ["See You In Court," July] is a reflection of a larger social problem: People increasingly do not want to take responsibility for their own actions or shortcomings. Couple this with greed, and you have people suing other people for all conceivable reasons, most of them unjustified.

We have been through litigation from ex-employees, and, unfortunately, even if you win, you lose. There needs to be a provision stating that if a lawsuit is unproved or unsuccessful, plaintiffs are required to pay the defendants' attorneys. That in itself would probably stop many of the frivolous lawsuits.

I think we definitely need to take measures to stop frivolous litigation, but when Congress and the state legislatures are made up primarily of lawyers, what kind of a chance do we have?

*Gina Vandroff  
Secretary-Treasurer  
Yarnall Warehouse Inc.  
Sarasota, Fla.*

We are being sued because one of our employees was involved in an accident in his personal vehicle after leaving our place of business. He was charged with driving while intoxicated and with having no insurance.

The suit alleges that we are liable (for \$1,402,500) because we failed to act in a reasonable and prudent manner by permitting an obviously intoxicated employee to drive home, thereby causing an unreasonable risk of harm to others.

If the employee was intoxicated, we were also a victim. We have a clear policy against the use of alcohol and drugs on the job. We are not free to discharge on either basis, however, unless we can prove abuse and that such abuse is a factor relevant to the work. We cannot insist that an employee be tested for abuse unless the employee agrees. We can test only if we have all our employees tested at the same time. We did not serve alcohol to this employee, nor was it made available to him on our premises. Also, how can I, a 57-year-old woman, prevent a 35-year-old man from getting in his own vehicle and driving it if he so chooses?

I recommend that state and federal legislators eliminate the deep-pockets avenue for lawsuits and that individuals responsible for accidents be held liable.

Our premises are quasi-public. We have a front door, and it is unlocked during business hours. Anyone can come in if he or she chooses. If someone leaves our premises and is involved in a wreck, are we responsible because that

self with examples of the employee's work. I had to waste my time, as well as that of my other employees (in testifying), and had to spend about \$1,500 on attorney fees before I won the case.

I believe that employees should be responsible for the legal fees of a case when the case is won by the employer. These frivolous cases should be the burden of the employee, not the burden of the employer.

*Nancy Mooney  
Owner  
Graphic Productions  
Farmington Hills, Mich.*

I submit that an employer is not subject to the same protection under the law that an employee is.

I am not familiar with any state statute that allows an employer to fire a time thief and seek compensation from the employee for stolen time. I am unaware of any law giving an employer recourse to fire an employee for consistently poor performance or poor-quality workmanship and giving the employer the right to receive compensation for the restaffing, retraining, and reworking of the substandard work. In addition, I'm not familiar with even one trial in which an employer had a jury of his peers, that is, other employers. No, the jury always comprises individuals with little or no training in business organization and management.

Equal protection under the law sounds good, but in the U.S., when it comes to the individual against the company, it's just a myth.

*R.W. Picciano  
President  
Digital Solutions Inc.  
Marietta, Ga.*

Although I found the article informative, I believe Donald C. Bacon's conclusions regarding the reasons behind the increased level of litigation between employees and employers are incom-

*Send letters to Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*



ILLUSTRATION: PAUL SALMON

person was in our office?"

There are so many risks involved in being in business, we are tempted to just close it up and either go to work for someone else or on welfare, whichever pays more!

*Mary Peterson  
President  
Climate Heating & Air  
Conditioning Co.  
Angleton, Texas*

All the sexual-harassment cases mentioned in your article concern females suing male employers. In my case, a male employee brought a sexual-harassment case against me, a female employer. The suit alleged that I fired the employee for sexual reasons. In fact, I fired the employee because of his poor work habits.

The employee took the case to the Civil Rights Court. I had to defend my-





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## LETTERS

plete. He nevertheless pointed at the real culprits when he stated, "With punitive damages eliminated in most cases, wrongful-discharge suits will become less attractive to lawyers."

Why will they become less attractive? Because the lawyers, most if not all of whom are retained on a contingency-fee basis, cannot make a fat-enough fee from a suit seeking reasonable compensatory damages.

Our society is currently in a litigious turmoil because anyone who has a real or imagined grievance can easily find a lawyer eager to sue any company that has sufficient assets or insurance. The person bringing the suit assumes no financial risk whatsoever, and the attorney knows that he is almost guaranteed an offer from the defendant to settle out of court to save the cost of litigation.

This disruptive situation will continue until lawyers' fees are regulated to limit them to a fair remuneration for the effort expended and, most important, until losing plaintiffs are required to pay defendants' legal costs.

*Peter Kellett*

*President*

*Product Resources Inc.*

*Wakefield, Mass.*

Tort reform is an absolute must, and the lucrative legal playing field must be curtailed before the average American business is rendered powerless to do what is necessary to be competitive and profitable.

In nearly every management book written today, the concept of getting closer to one's employees with improved communication, better incentives, and a participatory method of decision making is touted as the only way to stay competitive in global markets. Yet the ability of an employee to bring suit arbitrarily when he or she no longer produces as expected causes businesses to keep distant from their employees and develop a long list of regulations to protect the employer. The net effect is less creativity and less productivity.

Our country cannot have it both ways. If businesses are forced to coddle poor performances and be deprived of the ability to make proper decisions, and if employees are to be given more legal power and incentive to be nonconformists, poor producers, and, in the most frightening of scenarios, schemers who are looking for ways to bring suit, then we will continue to slide globally, and competing countries that still exhibit constraint, logic, and integrity will prevail.

It is time that we return to the days when to have a job was a privilege and not a right, and the employee was as

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## LETTERS

responsible for his actions as the employer.

*W. Christopher Fonville  
Executive Vice President  
General Manager  
Girsberger Industries Inc.  
Smithfield, N.C.*

### Sobering Points About Drug Tests

Your article "On The Job Against Drugs" [July] was very professional and made many excellent points, such as the need to include legal drugs like alcohol in any effective drug program.

However, the statement that false positives are eliminated by gas chromatography/mass spectrometry confirmation tests is incorrect. While GC/MS is theoretically capable of extremely high accuracy, any technology is only as good as the laboratory that uses it. The poor quality of most commercial labs has repeatedly been documented by major medical institutions, including the Centers for Disease Control. No reliable rating system yet exists to identify those labs with high-quality standards.

The article also failed to point out the two most important issues regarding drug testing. The first is that testing cannot determine whether a person is under the influence of drugs. At best, testing can determine that a drug was ingested sometime in the past month. The truth is that most people who fail a drug test at work are not stoned and have never come to work stoned. Firing people who come to work sober because of their condition on Saturday night is of debatable value.

The other major issue your article overlooks is the impact of testing programs on the morale of the majority of employees who are not drug abusers. Many employees deeply resent being forced to prove their innocence through a degrading procedure after years of service to a company. For companies with few abusers and high morale, the cure may be worse than the disease.

*Lewis L. Maltby  
Coordinator  
National Task Force On Civil  
Liberties in the Workplace  
American Civil Liberties Union  
New York*

### Representing Defendants

Along with several valid ethical problems mentioned in Roger Thompson's article "No Easy Answers" [July], the group of business people and students considered whether a lawyer should represent a guilty defendant. Indeed, a lawyer may have no voice in deciding whether or not to represent a defendant. Under our rules, attorneys are



PHOTO: EDD LALLI

*No easy answers were found by these North Kansas City, Mo., participants in a workshop exploring ethics in the workplace.*

appointed to represent defendants for the purpose of securing to each person rights guaranteed by the Constitution; those are representation by competent counsel and a fair trial. For an attorney, the decision to represent a defendant is no more an ethical decision than is his decision to vote in an election.

*H. Stewart Bradshaw  
Judge  
Superior Court  
Yuma County  
Yuma, Ariz.*

### Measuring Up For EC92

Your analysis ["EC92," June] of the prospects for trade with the European Community omitted two factors that will make it hard for American business to compete within the EC.

The first factor is that few Americans are proficient in a foreign language, and most believe it isn't necessary to learn one. This is an insular and shortsighted view. Even though English is widely used in business throughout the world, it should be obvious that a company that is culturally adaptive will have the advantage.

The other factor is our country's stubborn refusal to switch to the metric system, something Canada did cold turkey in 1977. In connection with unified standards in the EC, it behooves us to join the world and go metric. Unfortunately, despite the 1975 Metric Conversion Act, I don't see any leadership in that direction from our government.

*Andrew Van Husten  
Diamond Bar, Calif.*

*[Editor's Note: For more on the metric system and U.S. business's response to it, see "It Pays To Go The Extra Meter," Page 42.]*



# Small-Business Update

*Early notice of significant developing trends.*

## ESTATE PLANNING

### Choosing An Executor

One of the most important decisions small-business people make when drawing up a will is selecting an executor.

Bryn Mawr, Pa. The ideal executor for your estate, Christensen says, is a person who is close enough to your family to understand your wishes yet detached enough to settle family conflicts that

To avoid misinterpretations, you should review your will with the executor, Christensen says. Make certain that the executor understands your intentions and accepts all of the job's responsibilities.

If the estate is relatively large, you may want to name two executors—one to carry out your wishes, and the other to handle business and investment decisions, taxes, and keep records. The executor receives a fee for his or her services, which generally is 3 to 5 percent of the estate. However, family members often undertake the job free of charge.

Union costs increased from 50 percent of the U.S. level to 95 percent, and Japan's rose from 74 percent of the U.S. level to 130 percent.

Changes in labor costs result from the dramatic fall in the value of the dollar from its peak in February 1985. The Labor Department compensates, which includes health and pension benefits, to U.S. dollars, using daily exchange rates. As the dollar buys less of a foreign currency, the value of that currency in relation to the dollar goes up; thus, when the cost of labor for a foreign-made product is calculated in relation to the U.S. cost figure also rises.

The gap narrowed also partly because the U.S. labor-cost growth of 3.3 percent from 1987 to 1988 was below such growth rates in other countries.

## TRADE

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the respondents said that sales growth, and an additional 24 percent said they seek sales growth.

The study surveyed 450 applicants for Avon's Women of Enterprise Awards from 1987 to 1989. Of those who took part, 61 percent owned corporations, including S corporations; 34 percent owned sole proprietorships; and 5 percent owned partnerships.

Forty-three percent of the respondents said their businesses had annual sales of \$500,000 or more, and 23 percent had revenues under \$100,000. More than three-fourths of the businesses were outside the home.

If they were to name two skills essential to success for the next generation of women entrepreneurs, the respondents said, they would recommend "good management skills" (24 percent of respondents) and "good marketing skills" (13 percent).

Only 3 percent said a college education would be critical.



### Hourly Compensation Costs For Production Workers

	1986	1987	1988
U.S.	\$13.21	\$13.46	\$13.90
Canada	11.00	11.97	13.58
Japan	9.47	11.14	13.14
Korea	1.46	1.79	2.46
Taiwan	1.67	2.19	2.71
France	10.27	12.42	12.99
Germany	13.35	16.87	18.07
Italy	9.91	12.13	12.87
U.K.	7.54	8.97	10.56

Source: U.S. Department of Labor, Bureau of Labor Statistics, March 1989

CHART: MARY MULLINS

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## LETTERS

responsible for his actions as the employer.

*W. Christopher Fonville  
Executive Vice President  
General Manager  
Girsberger Industries Inc.  
Smithfield, N.C.*

### Sobering Points About Drug Tests

Your article "On The Job Against Drugs" [July] was very professional and made many excellent points, such as the need to include legal drugs like alcohol in any effective drug program.



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Many employees deeply resent being forced to prove their innocence through a degrading procedure after years of service to a company. For companies with few abusers and high morale, the cure may be worse than the disease.

*Lewis L. Maltby  
Coordinator  
National Task Force On Civil  
Liberties in the Workplace  
American Civil Liberties Union  
New York*

### Representing Defendants

Along with several valid ethical problems mentioned in Roger Thompson's article "No Easy Answers" [July], the group of business people and students considered whether a lawyer should represent a guilty defendant. Indeed, a lawyer may have no voice in deciding whether or not to represent a defendant. Under our rules, attorneys are

cans are proficient in a foreign language, and most believe it isn't necessary to learn one. This is an insular and shortsighted view. Even though English is widely used in business throughout the world, it should be obvious that a company that is culturally adaptive will have the advantage.

The other factor is our country's stubborn refusal to switch to the metric system, something Canada did cold turkey in 1977. In connection with unified standards in the EC, it behooves us to join the world and go metric. Unfortunately, despite the 1975 Metric Conversion Act, I don't see any leadership in that direction from our government.  
*Andrew Van Husten  
Diamond Bar, Calif.*

[Editor's Note. For more on the metric system and U.S. business's response to it, see "It Pays To Go The Extra Meter," Page 42.]



# Small-Business Update

*Early notice of significant developing trends.*

## ESTATE PLANNING

### Choosing An Executor

One of the most important decisions small-business people make when drawing up a will is selecting an executor, say estate-planning experts. The selection is significant because the executor performs a vital role in settling the estate. The executor is responsible for interpreting your intentions, concluding your financial affairs, and distributing any remaining assets after paying taxes and other debts.

Experts recommend you make your selection carefully. For most people, the best choice is a spouse or best friend, who also may be a beneficiary, says estate planner Burke A. Christensen. He is vice president and general counsel of the American Society of Chartered Life Underwriters and Chartered Financial Consultants, based in

Bryn Mawr, Pa. The ideal executor for your estate, Christensen says, is a person who is close enough to your family to understand your wishes yet detached enough to settle family conflicts that may arise over your estate. In addition, the executor should have good administrative skills.

The executor also interprets the benefactor's wishes if the will is unclear. The executor's authority to interpret a will is not absolute, however. Many disputes over wills are decided in court.

Unclear directions can keep your assets from reaching the intended heirs.

To avoid misinterpretations, you should review your will with the executor, Christensen says. Make certain that the executor understands your intentions and accepts all of the job's responsibilities.

If the estate is relatively large, you may want to name two executors—one to interpret your wishes, and the other to make business and investment decisions, pay taxes, and keep records. The executor receives a fee for his or her services, which generally is 3 to 5 percent of the estate. However, family members often undertake the job free of charge.

## COMPETITIVENESS

### Closing The Wage Gap

For the third consecutive year, the gap in compensation costs between U.S. manufacturing workers and their counterparts in key competitor nations has narrowed, according to a survey by the Manufacturers' Alliance for Productivity and Innovation. (See chart.)

The figures are significant to U.S. enterprises in international trade. Lower wages long gave foreign companies a competitive edge over American firms, but the gap has been closing.

From 1985 to 1988, Japan's hourly

compensation costs increased from 50 percent of the U.S. level to 95 percent, and Germany's rose from 74 percent of the U.S. level to 130 percent.

These changes in labor costs result largely from the dramatic fall in the value of the dollar from its peak in February 1985. The Labor Department converts compensation, which includes wages and benefits, to U.S. dollars, using average daily exchange rates. As the dollar buys less of a foreign currency, the value of that currency in relation to the dollar goes up; thus, when the cost of labor for a foreign-made product is calculated in relation to the dollar, that cost figure also rises.

The gap narrowed also partly because the U.S. labor-cost growth of 3.3 percent from 1987 to 1988 was below such growth rates in other countries.



### Hourly Compensation Costs For Production Workers

	1986	1987	1988
U.S.	\$13.21	\$13.46	\$13.90
Canada	11.00	11.97	13.58
Japan	9.47	11.14	13.14
Korea	1.46	1.79	2.46
Taiwan	1.67	2.19	2.71
France	10.27	12.42	12.99
Germany	13.35	16.87	18.07
Italy	9.91	12.13	12.87
U.K.	7.54	8.97	10.56

Source: U.S. Department of Labor, Bureau of Labor Statistics, March 1989

CHART: MARCY MILLING

## WOMEN

### Their Goal Is Growth

The main objective of most successful women entrepreneurs is further growth of their businesses, according to a national survey by Avon Products Inc.

In answering a question on what they viewed as the "next five-year goal" for their companies, 48 percent of the respondents said business expansion, and an additional 24 percent said they seek sales growth.

The study surveyed 450 applicants for Avon's Women of Enterprise Awards from 1987 to 1989. Of those who took part, 61 percent owned corporations, including S corporations; 34 percent owned sole proprietorships; and 5 percent owned partnerships.

Forty-three percent of the respondents said their businesses had annual sales of \$500,000 or more, and 23 percent had revenues under \$100,000. More than three-fourths of the businesses were outside the home.

If they were to name two skills essential to success for the next generation of women entrepreneurs, the respondents said, they would recommend "good management skills" (24 percent of respondents) and "good marketing skills" (13 percent).

Only 3 percent said a college education would be critical.

## TRADE

### Faster Processing For Licenses

With a personal computer and a modem, you can expedite export-license applications, thanks to programs that the Commerce Department calls ELAIN and STELA. The new Export License Application and Information Network (ELAIN) permits electronic filing around the clock for licenses to export products that could harm national security if they fell into adversaries' hands. Progress of applications can be tracked through the computerized System for Tracking Export License Applications (STELA). For details on using ELAIN, call (202) 377-4811; on using STELA, (202) 377-2753.



## OFFICE SPACE

## Is This Move Necessary?

If you are thinking of moving to a new location because your business seems to be outgrowing the space it now occupies, take time to determine whether you are making the most efficient use of your current space.

Discovering ways to put your existing space to better use can enable you to avoid moving to larger quarters, says interior designer Lynn Brotman of Hunter Smith & Associates, a Hamden, Conn., architectural and design firm. When you evaluate your space requirements, Brotman says, ask yourself the following questions:

- How much will the firm grow in five years? Have I planned the office to accommodate expected increases in both personnel and equipment?
- Is there a lot of unused space in the office? (If the office is designed properly, only 20 to 25 percent of the space must be kept open for people to move about.)
- Does work flow smoothly among groups or departments?



PHOTO: © ALAN DOROW

**Thinking of moving?** Remodeling may be a better alternative. Look at unused or inefficiently used areas; putting them to work may save you effort and money.

- Am I proud of the image my facility projects? Does it express what I do?
- Do I have the privacy I need to conduct business? Is it necessary to leave the work space and go elsewhere to find privacy?

- Do I have enough storage space for files, tools, and reference materials?

A review of your current work space can help you avoid signing up for more space than you actually need.

## HIRING

## Is A Barking Space Your Firm's Kind Of Perk?

What would you do if you found that the job candidate you were interviewing had brought her dog to the interview? What if she said she had missed lunch and started eating a hamburger in your office?

Robert Half International Inc., a San Francisco-based recruiting firm, asked executives for recollections of unusual job-candidate interviews. Among them:

- "She wore a Walkman and said she could listen to me and the music at the same time."
- "Asked to see the interviewer's resume to find out if the personnel executive was qualified to judge the candidate."
- "Interrupted to phone his therapist for advice on answering specific interview questions."
- "He dozed off and started snoring during the interview."

Company founder Robert Half, author of *Half on Hiring* and *How To Check References When References Are Hard To Check*, says you may never have to deal with such extremes, but if you do encounter odd behavior, don't respond to it. "Make believe it's normal, and continue with the interview," Half says. With rapid diversification of the work force, you are likely to be interviewing people whose reactions might seem unusual to you—though perhaps not to those attuned to the interviewee's culture—he adds. "Be kind to people looking for a job, because that's hard work."

## ENTREPRENEURSHIP

## How Long Will You Stay?

When young entrepreneurs start businesses, do they expect to make a career in those businesses—or do they think they will score a quick success and then move on to something else? David Adelsheim, the Oregon wine producer profiled this month in "Making It" (Page 14), probably speaks for many business people who have found the challenges and complexities of their enterprises more absorbing than they ever expected.

"When you're 28, everything has to

get done relatively quickly. You want to do this project, then you want to go on to that, then you want to be president—everything's still possible. Had I known that 18 years later I would in essence be doing what I was doing then, only with much more knowledge and much more skill, I probably would have been surprised.

"This is a common story among people of our generation, that they got into things naively, and either they failed and they went on to something else as an employee, or magically, somehow, things succeeded, and they have their own businesses."

## This Month's NB TIPS

Small-business people who sell goods and services to state and local government agencies will find *Guide To Getting Paid Promptly By State And Local Agencies* a useful resource. The recently published book explains which states have laws directing state and local agencies to pay bills within a specified period or pay an interest charge if the payment is overdue. Also contained in the book are names and phone numbers of

people to call for help in getting a bill paid. To order, send \$21 to the Coalition For Prompt Pay, 3150 Spring St., Fairfax, Va. 22031.

If you're thinking of buying or expanding a business, you could spend hours researching legal questions, sources of capital, business insurance, purchasing decisions, the advantages of leasing or buying equipment, financial management, credit collection, and recordkeeping. Or you could read *The Entrepreneur & Small Business Financial Problem Solver*, by William A. Cohen (John Wiley & Sons). This new 264-page book covers these topics in a readable format; it includes directories of other resources. It is available at bookstores for \$14.95.





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# Dateline: Washington

*What's happening in the corridors of power that will affect your business.*

By Donald C. Bacon

## POLITICS

### GOP Chairman Predicts Key Fight Over Reapportionment

State legislative elections next year are crucial to GOP hopes of taking control of the U.S. House of Representatives, Republican National Chairman Lee Atwater told a business audience.

The legislatures will redefine House districts to reflect the 1990 census. How those lines are drawn can help predetermine the party winner.

The Democratic Party in recent decades has dominated much of the redistricting process through its control of a majority of state legislatures.

Atwater told the Breakfast Bunch, an informal organization of Washington-based corporate representatives organized by the U.S. Chamber of Commerce: "If Republicans expect to make any kind of gains in the House of Representatives in the next two decades, we have got to come out of the 1990 reapportionment in better shape than we did last time."

Otherwise, the GOP chairman added, Democrats will control the House "for the next millennium."

Democrats have controlled the House since 1931, except for four years, 1947-48 and 1953-54.

Atwater said the Republican National Committee strategies in pursuit of control of the House would include the use of "technology to the max" and, if necessary, court challenges to redistricting plans.



PHOTO: FRANCES BOICHARDT

Republican leader Atwater outlines plan for party gains in the House.

## LAW

### Rulings Won't Halt Rash Of Litigation

The Supreme Court's recent job-bias rulings will bring employers only limited relief from the epidemic of workplace lawsuits, many employment-law specialists say. By tightening requirements for proving job discrimination, the court made it harder for minorities and women to win certain types of anti-bias suits against employers.

"I see some frivolous cases being weeded out," says Ira Shepard, a Washington, D.C., management-labor lawyer. "But nothing in the decisions alters the basic concept of nondiscrimination in the workplace. Where allegations can be proved, we'll still see plenty of day-to-day, individual cases."

Stephen A. Bokor, vice president and general counsel of the U.S. Chamber of Commerce, says the rulings could mean fewer "big, class-action" suits against employers, but he notes that "there aren't a lot of those anyway."

Critics of the decisions want them overridden by Congress.

## CONGRESS

### New Hope For Action On Product-Liability Reform

The introduction of a bipartisan bill to establish uniform national rules for product-liability litigation has kindled new hope that this Congress will address this prime business issue.

The reform plan, backed by leading business groups, which include the U.S. Chamber of Commerce, would replace the current system of liability laws that vary from state to state.

Those who support such reform contend that lax and confusing state standards have led to unreasonably high jury awards and huge increases in liability-insurance premiums.

One result has been the decisions of some manufacturers to keep new products, including many lifesaving medical products, off the market rather than contend with an unpredictable product-liability system.

Vehement opposition, led largely by plaintiff lawyers and consumer groups, has blocked efforts, which began 10 years ago, to achieve product-liability reform.

## EMPLOYEE BENEFITS

### Section 89 May Be Delayed

House and Senate tax-writing committees both favor postponing enforcement of the controversial Section 89 tax law from Oct. 1 to Jan. 1, pending Congress' decision on its future, which remains unclear.



PHOTO: T. MICHAEL KEZA

Ways and Means chief Rostenkowski's panel approves Section 89 revisions.

The law requiring employers to prove that health benefits programs are non-discriminatory is clearly headed for major revisions or repeal.

The House Ways and Means Committee, chaired by Rep. Dan Rostenkowski, D-Ill., approved revisions aimed at simplification in the wake of similar action by the Senate tax panel.

Business groups insist on repeal.

## COMMUNICATIONS

### "First Business" Debuts Sept. 11

"First Business," a Washington-based TV program starting Sept. 11, will provide the earliest, live, daily reports on business and economic developments.

With Carl Grant as anchor, the program will be carried initially by 15 stations, including five in the top 20 markets. It will be seen at 5:30 or 6 a.m. local time in each time zone.

"First Business" becomes the third TV program option of the multi-media package "Ad Plus," in which advertisers buying space in *Nation's Business* receive a bonus of time on U.S. Chamber of Commerce TV programs. **B**

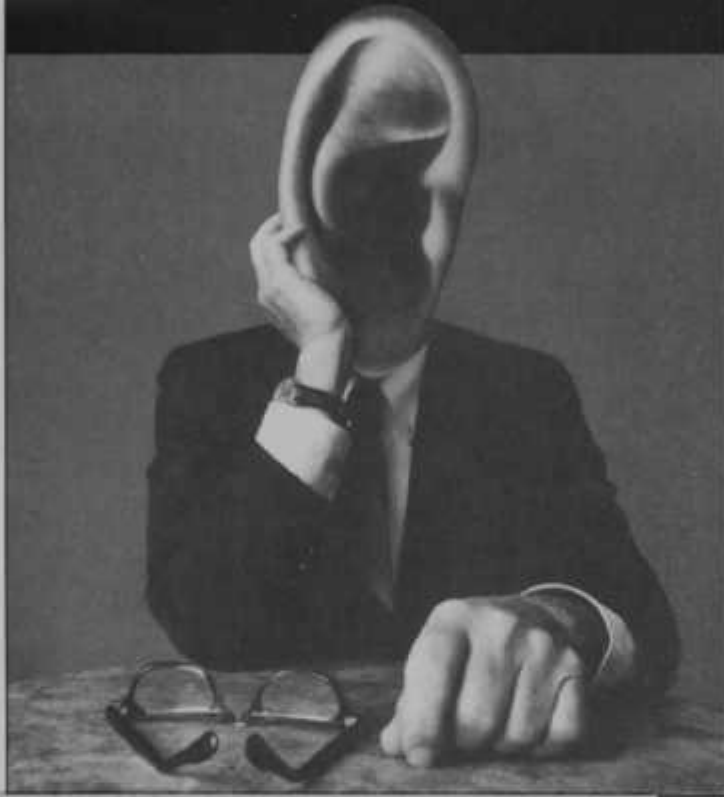


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# When To Fight, When To Switch



By Robert A. Dresser

**W**hen I was a sales executive in the newspaper business in the late 1960s, I dealt with many people who made a lot of money in the stock market. They were fascinating people to be around, and in large part because of them, I found the stock market itself fascinating.

As I talked to those people, I discovered that the New York orientation of analysts led them to ignore companies in the West. And if those companies could not get analysts to write about them in their reports or invite them to their meetings, they could reach investors only through ads in financial publications or big-city newspapers.

Listening to these company executives, I thought there was a need for a business that would enable public companies to tell their stories directly to stockbrokers all over the country. Brokers form a direct conduit to individual investors, and in 1967, individuals made up a major force—even for New York Stock Exchange stocks. The brokers would pass information on to the investors, and with the enthusiasm of investors and brokers alike, the stock would move.

My idea was to arrange lunch and dinner meetings for stockbrokers. The meetings would be sponsored by the public companies that wanted to reach the brokers. The companies would pay an all-inclusive fee for each meeting, and I would round up a roomful of interested brokers. The meetings were designed to be helpful both to the companies and to the brokers.

I named my company the Stockbrokers Society.

I figured that my natural market consisted of the 500 biggest corporations. These were companies with a long view, and their managements would recognize the value of building relationships with brokers over the years. The strategy was validated when Occidental Petroleum became one of my first corporate customers. Its CEO, Armand Hammer, believed that Wall Street wasn't fairly valuing his company's stock. He wanted to take his story to stockbrokers. The company did just that in a series of meetings before the Stockbrokers Society, and the company's stock rose afterward.

Other big companies followed, such as AT&T, American Family, Mack Trucks, McDonald's, Phillips Petroleum, RJR Nabisco, and Unocal.

I continued to pursue mainly big companies for some time. But after a decade, my company's growth tapered

off. I finally realized that many big companies no longer depended much on individual investors. Their stock was owned primarily by big institutions.

The Stockbrokers Society's natural market, I was discovering, was smaller companies, those listed on the American Stock Exchange and regional exchanges and those traded over the counter.

Individual investors are vital to the capitalization of these companies, and yet few of them can afford the massive advertising and publicity programs needed to reach individual investors. For about \$4,000 per meeting, mid-sized companies can reach the most productive brokers in a given market.

By the late 1970s, I had enough case histories to permit me to go to small and mid-sized companies and show them cost-effective results. A series of meetings that might

cost—in today's money—\$40,000 would be followed often by an increase of one or two points in the price of the stock. For even a company with a small float, perhaps 500,000 shares, the economics were compelling. Of course, it didn't hurt that the CEOs of small companies are typically large shareholders.

By the early 1980s, I was concentrating not only on smaller companies but also on more meetings per company. This required a willingness to pursue the hard sale—explaining to each company that it should go with the optimal number of meetings for its purposes.

So the times had changed. When we started, we had the right market, but if we had stayed with it no matter what, I suspect we would have

stagnated, and eventually we would have been squeezed out by upstart competitors.

Today, we have 47 chapters across the country, each headed by a prominent local broker. At Society headquarters, I have two very able senior executives plus a number of support people. I'm looking at a growing business that nicely survived the market drops of 1973-74, 1981-82, and 1987—this in a business that is obviously sensitive to market fluctuations. We attract 60 or more top-notch brokers to each meeting. Each year, we continue to demonstrate the value of reaching out to individual investors through their brokers.

I can't chalk any of this up to divine guidance. I just did some listening, and I put 2 and 2 together. The brokers asked me what was new out there besides the big companies, and smaller companies told me things such as: "We have a great company, but the stock is flat, and nobody knows about us. We need a more favorable market price so that we can make a new offering."

So I moved to the smaller market, which seemed to me then nothing but good common sense. It turned out to be good business sense as well. ■

*The times had changed. When we started, we had the right market, but if we had stayed with it no matter what, I suspect we would have stagnated, and eventually we would have been squeezed out by upstart competitors.*

Robert A. Dresser is the founder, president, and owner of the Stockbrokers Society, headquartered in Los Angeles.

Readers are invited to contribute to *Entrepreneur's Notebook*. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.



# Making It

*Growing businesses share their experiences in finding and marketing new products and services.*



## The Fruit Of The Vine

**W**ine is like music, you might say, and wine producers are like musicians. Some write the songs the whole world sings—simple, cheerful, uncomplicated wines, the ones that fill the jugs that line the shelves of grocery stores. Other wine producers resemble composers of a more serious cast of mind; they bottle liquid symphonies, with rich and subtle harmonies.

David Adelsheim, 46, is a wine producer of the latter kind. He makes his music on the steep southern slope of a hill in Oregon's Willamette Valley, a few miles outside Newberg.

Adelsheim, his wife, Ginny, and their 7-year-old daughter, Elizabeth, live there in a frame building that also houses their winery in its cellar. They wake each morning to the sight of one of their vineyards, stretching down the hill below their home. Purchasers of Adelsheim Vineyard wines see that vineyard, too; Ginny Adelsheim, a sculptor, has depicted the vineyard on some of the labels she has drawn for the wines that they bottle.

Those wines are now coveted by connoisseurs—the most highly regarded



PHOTO: BRIAN DRAKE

Adelsheim wines sell for \$15 a bottle and up—but only 20 years ago, "wine" and "Oregon" were words that came together naturally on few lips. The state seemed too cool and too wet to support a wine industry. The first serious efforts to raise wine grapes in Oregon began in the early '60s, and it was not until 1966 that the first vineyards were planted in the Willamette Valley.

Oregon wines' reputation grew in the 1970s, though, until finally, in a highly publicized judging in 1980, a red wine from David Lett's Eyrie Vineyard finished a very close second to a French burgundy made from the same kind of grape, the pinot noir. (Oregon wines are named for the grapes from which they are made; French wines are named for the regions in which the grapes are grown.)

The Willamette Valley has turned out to be particularly hospitable to the pinot noir grape, a temperamental fruit that thrives few places outside France. "Many of the grapes that are used in the bigger California wineries are just simpler grapes," Ginny Adelsheim says. "Pinot noir is unusual, because its flavor has so many different aspects. It's a very marginal kind of fruit to grow, too; it's not a heavy producer, and it makes the best fruit when it's on the edge of stress. All those things just don't work for larger wineries, where

**Friends' faces**—as well as their daughter Elizabeth's—adorn the labels of David and Ginny Adelsheim's praised Oregon wines.

they have to have predictability."

More than 50 wineries—all of them small compared with the California giants—now dot western Oregon, with the bulk of them concentrated in the Willamette Valley, south of Portland.

Even though Adelsheim wines—the pinot noir especially—rank among the very best that Oregon produces, David and Ginny Adelsheim didn't know, when they bought 19 acres on their hillside in 1971, that they were going to start a winery. "We really wanted to move to the country," Ginny says. "That was the major, driving force." Says David: "When we started planting grapes, we sort of fantasized that we might make some wine down the road." They both envisioned other kinds of careers—he would build furniture, she would sculpt.

They soon learned, however, that wine making is not hospitable to dilettantes. David Adelsheim recalls cultivating his vineyard, "driving up and down rows on a very used \$1,200 tractor, thinking about how much money it was going to take just to buy barrels to put our wine in. I thought, '\$300 apiece,





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## Making It

## PEOPLE

a hundred barrels. That's \$30,000. How am I ever going to have that kind of money?"

Soon Adelsheim had plunged into a relentless course of self-directed education in grape growing and wine making. He worked one harvest at the Eyrie Vineyard, and in 1974 he spent three months at a school in France, learning the techniques of the Burgundian masters. For several years before he and Ginny made their first wine in 1978, he worked in Portland restaurants as a wine steward.

The first couple of years they made wine, Ginny recalls, "Dave and I did all our own distribution. I would take the car and fill it up with wine and go to all the southern Oregon towns, and Dave would take Portland." David was not able to drop other jobs and begin working full time as a wine producer until 1981. As his involvement grew, Ginny gradually ended hers, except for designing the labels.

Even now, with Adelsheim wines distributed across the country and praised by widely read writers on wine, Adelsheim Vineyard remains a very small business, with only seven full-time employees. In a normal year, it will sell 15,000 cases—5,000 of pinot noir and smaller amounts of other wines—for total revenues of around \$600,000.

His operation cannot get a great deal bigger, David Adelsheim says, without compromising the quality of its wine.

"Gentleness is the key to making pinot noir," he says.

"If the most important thing in the vineyard is picking the grapes at the right time, the most important thing in the winery is extreme gentleness in the handling of the grapes, the wine, everything. And gentleness takes money," because what could be done quickly by machine must instead be done slowly by hand. Such gentleness, Adelsheim continues, "results in wines that have a much softer, rounder feel to them, which with pinot noir is one of the essences of the grape."

**T**he complications of making good wine are endless. They encompass the character of the harvested grapes, the kind of oak in the barrels, how thoroughly the grapes are crushed, and even whether whole clusters of grapes share the fermenting tank with the crushed grapes. Beyond that, Adelsheim must decide how to blend the often strikingly different wines from different vineyards so that "together they make a complete wine."

As he says, "the wine business is a good one to choose if you're not content with a simple, straightforward job. You never make the perfect wine."

—Michael Barrier

## Renegades Of Madison Avenue

**S**am B. Vitt doesn't look much like an outlaw. At 62, he resembles, rather, a lean, benevolent schoolmaster, one whose office is, appropriately, across the street from the New York Public Library. But 20 years ago next month, Vitt went from being a respected member of his community to being a renegade, he says, "instantly." Vitt's offense was to start a company: Vitt Media International, a media-buying service.

Such firms offer a specialized service to advertisers and advertising agencies. They say, in effect: Give us the TV commercials and print advertisements that you want to run, and tell us what

Colgate Palmolive "wanted to get more efficiency out of their advertising dollars," Vitt recalls, "so they asked Bates, as one of their eight agencies, if they would be willing to make a presentation to handle all of the Colgate broadcast business. We got the assignment, and that was, in some people's opinion, the first independent media-buying service."

Media buying is, inevitably, one of the least glamorous operations in an ad agency, for reasons explained by Hal Katz, VMI's executive vice president: "When a client picks an advertising agency, the overwhelming reason for the choice has to be that it's creative." The creative department's output "is really a lot of fun to look at. When you get into the media and money and demographics, it's very hard for clients to concentrate and get excited. The agen-



PHOTO: ARNOLD ADLER

**The heart of the firm is what this research library means to Vitt Media International's Sam Vitt, center, Roy Muro, left, and Hal Katz.**

you were planning to spend; we will negotiate lower rates for the coverage you want, and we will both share in the spread. VMI is the oldest surviving media-buying service (the first, now defunct, started in 1968), and probably the largest; the privately held company bills more than \$400 million annually.

Traditionally, ad agencies have relied on their own media departments to buy the print space and air time for the ads and commercials that their creative departments have produced. Vitt was, in fact, head of the media department at the Ted Bates agency in the '60s, and it was there that he put together a media-buying service of an embryonic kind.

cies, being no dummies, recognize that if they're selling on their creative ability, they should invest in the creative department."

Advertising agencies traditionally have been compensated through a 15 percent commission: If an advertiser budgeted, say, \$1 million, the agency would keep \$150,000 of that, with \$850,000 going to the media in which the ads were placed. The commission system has worked well enough when the flow of advertiser dollars was increasing rapidly—as in the early days of network television—but not always so well when it was not.

Vitt says he conceived of his company as a service to agencies that were being squeezed by the commission system: An agency would still collect its full commission on the benchmark amount, but it would no longer bear the expenses involved in media buying.



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LQ-850	264 cps	88 cps
LQ-950	264 cps	88 cps
FX-1050	264 cps	88 cps
LQ-1050	264 cps	54 cps
LQ-2250	400 cps	133 cps
DFX-5000	533 cps	80 cps

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Mfr. Sugg. **\$335**  
Ret. \$529  
ELEK-TEK PRICE

## Printer Comparison Use bold numbers for ordering purposes.

Models	LX-810	FX-850	FX-1050	LQ-510	LQ-850	LQ-1050	LQ-2550	DFX-5000 (not pictured)
Print Head	9-pin	9-pin	9-pin	24-pin	24-pin	24-pin	24-pin	9-pin
Draft Speed	200 cps	264 cps	264 cps	180 cps	264 cps	264 cps	400 cps	533 cps
NLQ Speed	30 cps	54 cps	54 cps	60 cps	88 cps	88 cps	133 cps	80 cps
Columns	80	80	136	80	80	136	136	136
Buffer	4K	8K	8K	8K	8K	8K	8K	3K
32K Buffer Expansion with Parallel Interface	<b>454835</b> 140.00	<b>454835</b> 140.00	<b>454835</b> 140.00	<b>454835</b> 140.00	<b>454835</b> 140.00	<b>454835</b> 140.00	<b>454835</b> 140.00	<b>454835</b> 140.00
Resident Fonts	Roman San Ser	Roman San Ser	Roman San Ser	Roman San Ser	Roman San Ser	Roman San Ser	6 Fonts	Roman San Ser
Tractor	Built-in Push	Built-in Push	Built-in	Built-in Push	Built-in	Built-in	Built-in	Built-in Dual Push
Mean Time Between Failure	4000 hrs	4000 hrs	6000 hrs	4000 hrs	4000 hrs	6000 hrs	5 mill. lines	5 mill. lines

## Printer Options Use bold numbers for ordering purposes.

Models	LX-800/ LX-810	FX-850	FX-1050	LQ-500/ LQ-510	LQ-850	LQ-950 (not pictured)	LQ-1050	LQ-2550	DFX-5000 (not pictured)
Serial Ports (000700 w/8K Buffer)	000700 90.00	000700 90.00	000700 90.00	000700 90.00	6-Pin Din	6-Pin Din	6-Pin Din	Built-in 25 Pin	Built-in 25 Pin
32K Buffer Expansion with Serial Interface	<b>486375</b> 75.00	<b>486375</b> 75.00	<b>486375</b> 75.00	<b>486375</b> 75.00	<b>486375</b> 75.00	<b>486375</b> 75.00	<b>486375</b> 75.00	<b>486375</b> 75.00	<b>486375</b> 75.00
Single Sheet Feeder	(LX-800) 487373 79.00 (LX-810) 516370 89.00	454744 149.00	454752 199.00	(LQ-500) 487373 79.00 (LQ-510) 516370 89.00	454744 149.00	497009 173.00	454752 199.00		
Dual Sheet Feeder		520983 224.00	520991 224.00			497017 248.00		497059 336.00	
Genuine Ribbon	452730 6.75	452730 6.75	417487 10.50	034173 6.75	034173 6.75	497033 9.00	034215 10.50	497083 11.00	497124 25.50
Color Ribbons								497091 19.00	
Pull Tractors		454736 47.00	454728 57.00		454736 47.00	497025 52.00	454728 57.00	497067 52.00	497140 90.00

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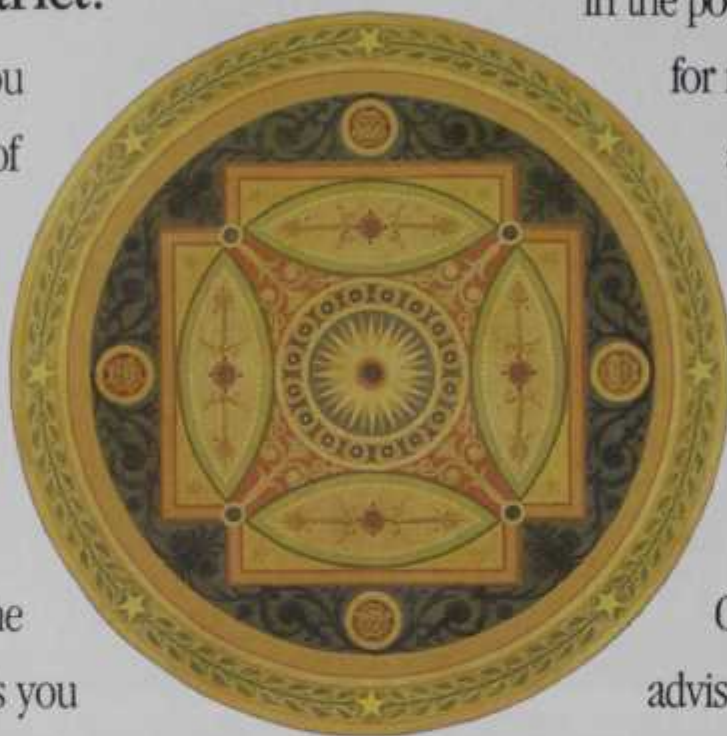
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But, Vitt says, "the agencies saw this as a direct threat to them, and many of them still do." Not only did the agencies already have their own media departments, but, Vitt adds, "most agencies' motivation, which was not thought out consciously, was to spend the most money they could, because they got 15 percent of that." The media-buying firms' promise to cut costs was thus not necessarily appealing, either. Now, though, about half of VMI's business comes from ad agencies (the rest comes directly from advertisers).

The fragmentation of the media, through cable television, special-interest magazines, and the like, has made buying services more attractive. "The narrower the audience," Katz says, "the less the waste" of the advertiser's dollars, and the greater the opportunity "to be more precise in what you do." But achieving such precision is difficult and expensive. That task is made to order for VMI, a company that specializes in analyzing the media and the people they reach.

Its offices have the look and subdued hum of an unpretentious, computerized law firm, right down to the research library, which is packed not with court reports but with studies of who is watching, reading, and buying what. The staff of 127 is about equally divided between those who buy media and those who plan what to buy.

"Our business is to find the loopholes in the media and take advantage of them," Katz says, by, for example, coming up with the idea for 30-second "programs" like "Fantastic Finishes," which airs during pro football games.

Planning can involve some innocuous hoodwinking of TV viewers. For instance, there is much talk now about how cluttered the air has become with short commercials; but everyone can recall being surprised when a short commercial was repeated in the same program, perhaps after only a few minutes. Was it a mistake? "The probability is," Katz says, "we bought it that way. And we made you as the viewer much more active in the process."

VMI's success interested some big ad agencies in buying the company, Vitt says, but he chose instead to sell the firm to his employees. In 1991, when the sale, through an employee stock ownership plan, is complete, Vitt will surrender the job of chief executive officer to President Roy Muro, 46.

Vitt sounds confident about the company's future without him:

"If you're in phase with a trend, the odds are you're going to win. And I think we're in phase with the trend."

—Michael Barrier



PHOTO: MANUELLO PAGANELLI-WOODFIN CAMP

## Outwitting The Hackers

Fereshteh "Angel" Bailey is in the business of outsmarting computer snoops, terrorists, and thieves.

She is president of Cypher Communications Technology Inc., of Rockville, Md. The firm's software and hardware products protect computer data for government agencies, police departments, utility companies, banks, and other businesses.

Bailey, 40, was born into a military family in Iran; her mother was one of the first computer scientists there. Her father came to Washington, D.C., to study at the National War College, and upon returning to Iran, he sent his wife and five children to live in the U.S. "He wanted us to become international," Bailey says. She graduated from the University of Virginia, the University of Illinois, and the Sorbonne in Paris.

Bailey and her husband, Guy, a native Nebraskan, met in 1974, while both were working for an American company in Iran, before the fall of the shah. They married in 1975 and started Cypher in 1980, as a consulting firm, and have since worked as computer-security consultants in more than 50 countries. (Bailey speaks several other languages in addition to her native Farsi and English.) Sometimes, work would take her to one country and her husband to another, and they would rendezvous in a third.

Bailey eventually became a research faculty member at the University of Maryland. When she decided to leave the university to devote all her time to running the company, in 1984, she did it hesitantly. "I thought that I wouldn't fit in, that business was all dog-eat-

dog," she says. "I like to share instead of compete."

But Bailey felt an obligation to find ways to protect large amounts of data. "Everything based on computers is vulnerable to attack," she says, adding that most people don't realize that sophisticated programmers with access to the right computer networks could cause airplanes to collide or could shut down utilities for entire cities.

Together the Baileys have designed 26 products, ranging in price from \$195 to \$5,000, that can encode data and thereby bar unauthorized persons from using it. One product can encode all of a personal computer's files; another, a communications program, can protect data as it is exchanged on a personal-computer network. Cypher brought its products to the market two years ago, under the CYCOM label. Bailey expects this year's sales to be many times larger than the \$3 million posted in 1988.

Guy Bailey, 50, an electrical engineer with a law degree, is Cypher's vice president of research and development. Angel Bailey devotes herself to marketing, despite a lack of training there.

Positive thinking and practicing whatever you want to master are critical ingredients to success, she says; what seems to be a weakness can turn out to be a strength. For example, she has turned her soft, heavily accented English into a marketing asset.

"When someone hears me on the phone," she says, "they do not forget my voice, and they are curious about who I am."

—Susan Kauffman



## COVER STORY

# Curbing The High Cost Of Health Care

By Roger Thompson



PHOTO: T. MICHAEL KEZIA

It took Philip A. Leber Sr. 19 years to build his family-owned tool-rental business into a prosperous enterprise employing nine people. Yet his long record of entrepreneurial success suddenly is threatened by circumstances beyond his control.

Leber's business is on the verge of being crushed under the weight of health-insurance costs that average \$17,372 a year per employee, perhaps the highest cost per worker of any business in America.

These costs for seven covered employees and their dependents, represent a five-fold increase from just one year earlier. Large medical expenses for a critically ill infant in the family of one of Leber's employees triggered the explosive rise in his firm's rates.

Says Leber, president of George's Tool Rental Inc. in Hatfield, Pa.: "It seems hard to visualize how a small

**Philip and Bertha Leber, center, along with their son-in-law—holding their grandson—and most of the employees of their tool-rental firm.**

business can survive with expenses such as this."

While the magnitude of Leber's rate hike is extreme, his bewilderment over sharply rising health-care costs is shared by thousands of small-business owners who are seeing their profit margins erode—or disappear—as health-insurance premiums jump 20 percent to 150 percent.

The surge in health-insurance premiums reflects the nation's unexpected failure to bring rising medical costs under control. Runaway price increases in the early 1980s forced many employers and insurers to devise new methods for medical-care cost control, such as insur-

ance company approval for hospital admission and mandatory second opinions to confirm the need for surgery.

Those cost increases also spurred intense new competition in health-care delivery through the growth of health-maintenance organizations (HMOs), which provide all health services to members for a flat fee, and preferred-provider organizations (PPOs), in which affiliated medical practitioners provide services at a discount.

Those and other cost-containment steps were credited with holding cost increases for employer-sponsored medical plans to single-digit percentages from 1985 to 1987, prompting what proved to be a false sense of optimism among employers and insurers that the explosive inflation in health-care costs had been contained.

But double-digit health-cost inflation returned with a vengeance in 1988, driv-



*Many small-business owners are seeing their profit margins erode as health-insurance premiums jump 20 percent to 150 percent. Yet there are many cost-management strategies that small firms can adopt to rein in these runaway expenses.*



ing annual health-care costs per employee to a record high of \$2,354, an 18.6-percent increase over the previous year, according to an annual survey conducted by the benefit consulting firm of A. Foster Higgins & Co. "Not only is double-digit inflation back in health plans," says John Erb, managing consultant in charge of the survey, "but there also doesn't appear to be much relief in sight."

In fact, double-digit increases are the norm again this year, according to a recent survey of 14 major insurers by Noble Lowndes, an international consulting firm. "By the end of the decade, the average employer's medical benefits costs will have increased to more than 13 percent of payroll, up from less than 5 percent of payroll in 1980," says David L. Brenneman, a Noble Lowndes vice president.

**E**xperts attribute the continuing increases in health-care costs to several circumstances:

- Expanded coverage in the areas of mental health and substance abuse, which now account for nearly 10 percent of medical plan costs. In many instances, this expansion has been dictated by state governments.

- Failure of HMOs and PPOs to sustain their original promises of achieving major breakthroughs on cost reduction. A campaign to encourage use of outpatient services in place of hospital stays also fell below expectations for cutting costs.

- The high cost of advances in medical technology and drug therapy.

- A substantial increase in the population most likely to incur heavy medical costs—the elderly.

Although health insurers take the brunt of complaints about escalating costs, they simply are passing along their losses. The industry suffered a record underwriting—or pretax—loss of \$5.6 billion in 1987, and its red ink amounted to \$4.7 billion in 1988, according to *The National Underwriter*, an industry publication.



PHOTO: ©RIC FERRO—BLACK STAR

**Employer Charles Mortensen, with son Chip, says premium boosts started him thinking about government solutions to health-care needs.**

As a result, some major companies, such as Provident Mutual, Mutual of Omaha, Kemper, and Allstate, have withdrawn from the group-health-insurance business.

The physicians have been criticized for escalating their fees and generating incomes that rank them at the top for all professionals. In 1987, the typical income for a physician was \$116,440, according to *Medical Economics* magazine. The median incomes of some specialists reached nearly three times that amount. (See chart on Page 24.)

On the other hand, physicians' earnings have not kept pace with consumer price inflation in seven of the past 10

years, says *Medical Economics*.

If physicians' income growth isn't fueling overall health-care inflation, the rising cost of the care they provide is a major factor. Numerous studies have concluded that doctors provide significant amounts of unnecessary and ineffective medical care, driving up overall expenditures, says Theodore J. Nussbaum, a principal with the accounting and consulting firm of Coopers & Lybrand. "Since the system is driven by physicians, they can be a major part of the problem," Nussbaum says.

Doctors maintain that the torrent of malpractice lawsuits during the 1980s has forced them to practice defensive medicine by ordering more tests and performing more services than they might otherwise believe necessary.

Some studies indicate that up to 25 percent of doctors' procedures are done for defensive reasons, says Karen



## COVER STORY

Brigham, manager of health-care policy for the U.S. Chamber of Commerce.

**A**s inflationary pressures from a variety of sources rekindle double-digit premium increases, it's no wonder that health-care costs have become the No. 1 concern for many American companies—the nation's chief providers of group medical insurance.

Employer-paid health insurance covers an estimated 160 million Americans—workers, workers' dependents, and retirees. Employers will spend more than \$140 billion this year to provide that coverage.

The nation's total health-care bill for 1989 is expected to hit a record \$542 billion. That represents nearly 12 percent of the gross national product, which is twice the percentage of 25 years ago and is the largest share of GNP for health care among all industrialized nations. At the current rates of growth, health-care spending in the U.S. may reach 15 percent of GNP by the year 2000.

As the medical-care bill grows, so does the debate over who should pay it and how medical resources should be allocated. One facet of the controversy is how best to extend insurance coverage to the estimated 37 million people now lacking it. (See the box on Page 26.) And as costs soar, one state—Oregon—already has begun to ration health-care dollars. (See the box on Page 25.)

The debate also involves those who believe that the return of double-digit premium increases is proof that cost-containment efforts during this decade have failed and that the only alternative now is some form of nationalized health care, perhaps similar to that in Canada. (See the box on Page 22.)

But small business sees the problem as immediate, not as a matter of debate over long-term solutions. Charles Mortensen, president of Scandia Technologies Inc., in Clearwater, Fla., says his insurance plan covering 13 of 20 employees was hit with a premium increase of over 80 percent two years ago. He changed insurers and saved about \$1,000 a month in premiums, but he expects another big rise in premiums this year. To make matters worse, he now fears that his current insurer may go out of business. Says Mortensen: "I've been anti-socialist all my life, but if there is one area where we might need this kind of help, it's medicine."

Don't throw in the towel yet, advises William L. Roper, a White House adviser on domestic policy. The assumption that health-care cost containment has failed simply isn't true, he maintains, because business hasn't made a serious



## National Health Expenditures



effort yet to implement aggressive cost-management strategies. "I reject the premise that we've tried everything we know how to do and it's failed," Roper says. On the contrary, he maintains that most employer health plans encourage excessive use of medical services.

The basic problem is that employees typically pay only a relatively small portion of the cost of their health-care insurance or, in many cases, are under plans fully paid by employers. This insulates them from the full impact of rising costs and leaves them largely unconcerned about the economical use of services. "If food prices were going up by 15 percent a year, you'd have pickets in front of grocery stores," says Jon Gabel, associate research director for the Health Insurance Association of America, an industry research and lobbying group. "But you don't see pickets

## Typical Premiums\*



\* Monthly health insurance premiums paid in 1988 by employer, or employee, or partly by each.



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## COVER STORY

in front of doctors' offices" because insurance covers virtually all the costs, he adds.

**D**espite the sharp rise in premium costs, an HIAA survey found "virtually no change in the average [employee-paid] deductible or the coinsurance rate [the percentage of costs paid by employees]" from 1987 to 1988. The survey found the typical individual deductible remained at \$100, with a family deductible of \$300, while the typical coinsurance rate remained at 20 percent. "Our analysis suggests that employers and insurers did not respond to the premium increases of 1987 and 1988 as if a crisis were at hand," the survey stated.

Although small firms typically pay 10 percent to 40 percent more for their health-insurance premiums than large companies pay, they are even less likely than large companies to pass any of the costs along to employees. A 1987 Small Business Administration study found that 70 percent of all firms with fewer than 100 employees paid all of their employees' health premium, and on average such firms paid 87 percent of family premiums.

Small firms also are far less likely to have implemented other cost-management strategies widely adopted in mid-decade by larger employers. Among the approaches that have been tried, not all of them effective:

- Preadmission certification, to approve medical necessity and determine length of stay before a patient enters the hospital;
- Second opinions, to confirm the need for elective surgery;
- Outpatient surgery, which does not require hospital admission;
- Concurrent review, to monitor a hospital patient's treatment and length of stay;
- Discharge planning, to coordinate the need for follow-up care outside the hospital;
- High-cost-case management, which determines the most cost-effective treatment for those with chronic illnesses such as AIDS or cancer.

Four out of 10 small and midsized Northeastern companies surveyed this year by the Wyatt Co., a benefits consulting firm, said they have not tried any cost-containment strategies. While 63 percent had implemented at least one strategy, no single measure had spread to even half of the companies.

There are several good reasons why small companies lag in taking effective steps to contain health-care costs. It is less of an administrative headache to pay full premium costs for employees, and doing so may make up for fewer benefits overall. Failure to share costs

## Health Care, Canadian-Style

Canadians' total outlay for health care equals about 9 percent of their nation's gross national product—lower than the nearly 12 percent of GNP paid out in the U.S. And by some measures, Canada's population is healthier than that of the U.S. Canadians live longer, on average, and their infant-mortality rate is 25 percent lower.

Unlike the U.S., where some 37 million people have no health insurance, health insurance in Canada is universal. The tax-financed national system eliminates the need for deductibles and coinsurance. And Canadian law forbids doctors from charging patients more than the fees set by provincial governments.

Moreover, Canadians have the right to choose their physicians and hospitals, and physicians have the right to choose where they want to establish their practices and to charge on a fee-for-service basis.

Not surprisingly, at a time when U.S. health-care costs seem to be soaring out of control, American interest in the Canadian system is on the rise. Says Chrysler Corp. Chairman Lee Iacocca: "American industry cannot compete effectively with the rest of the world unless something is done about the great imbalance between health-care costs in the United States and national health-care systems in virtually every other country."

Yet health care Canadian-style may not cure what ails the U.S. system. The American Medical Association describes the Canadian system as "socialized medicine managed by an ever-enlarging and more expensive bureaucracy, financed by ever-increasing taxation, and featuring rationing, shortages, health-care waiting lists, and an absence of private-sector alternatives."

Canada bases its health care on the egalitarian ideal of providing universal access to basic hospital and physician services. When the program was begun in 1971, the Canadian government covered 50 percent of health-care costs through various taxes. To contain costs, the government in 1977 changed its form of funding to block grants for each of Canada's 10 provinces. The grants have not kept up with the rising costs of health care, however, with the result that federal support dropped to 38 percent in 1988.

The provinces have been forced to pick up the slack. While they are free to finance health costs with any taxes they choose, they derive most of their

funds through general tax revenues.

Not all health needs are covered by the system. Excluded are payments for eyeglasses, dental care, outpatient prescription drugs, and treatment upgrades such as private or semiprivate hospital rooms. Most employers cover these costs through supplemental insurance plans.

Since federal and provincial governments are the sole payers of medical bills, they set ceilings on physicians' fees and hospitals' spending. Recent efforts to restrain rising costs have forced provincial governments to impose "tighter controls on the number of doctors and physician fees, hospital budgets, and home-care budgets," according to the Employee Benefit Research Institute, a nonpartisan research organization in Washington, D.C. In a report on the Canadian health-care system, the organization states: "These controls have directly resulted in supply shortages and queues for some types of health-care services, restricting access to some types of care."

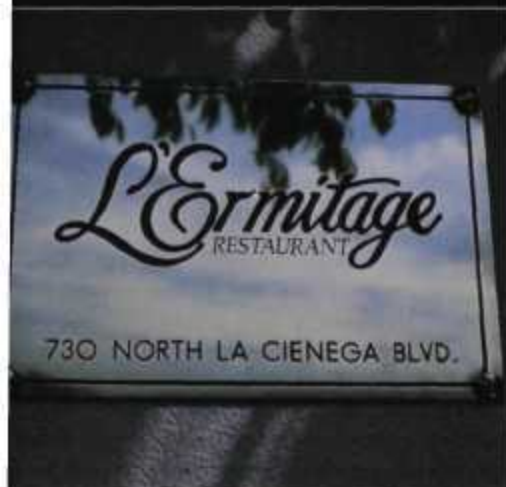
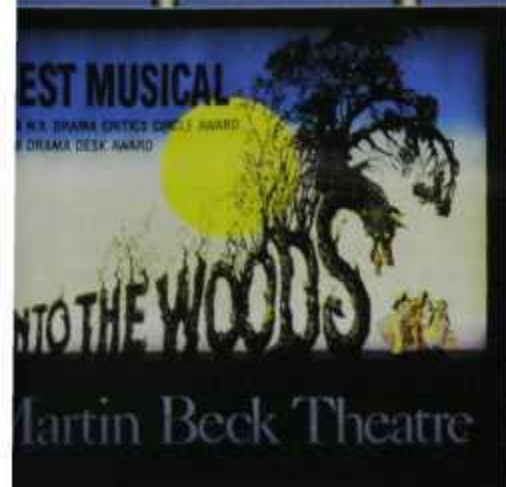
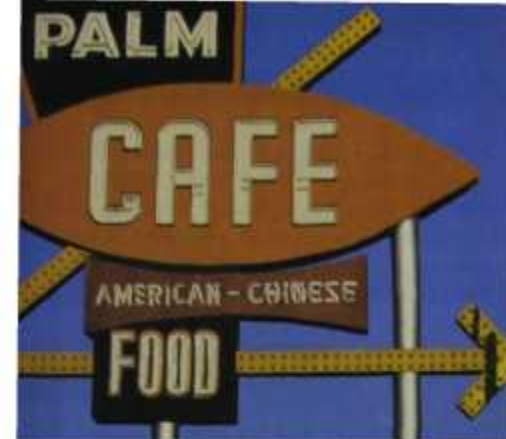
To handle the increasing demand for hospital beds, Canadian hospitals have had to resort to a type of rationing. In his book *Condition Critical*, medical journalist Nicholas Regush likens the rationing to the medical decision-making in mobile medical units like those on the television show "M\*A\*S\*H." Patients are classified as emergency (situation is life-threatening), or urgent (patient needs treatment within 24 hours), or elective (patient needs treatment or surgery for a condition that is not life-threatening).

*Maclean's* magazine, Canada's leading newsweekly, took a rather alarmist view of the state of Canadian health care in a cover story earlier this year: "Hospitals across the country are taking beds out of service, limiting the number of operations they perform, and cutting back on other services as governments battle to keep down health-care costs." In an introductory column, the magazine's editor concluded, "People are dying because doctors and the medical establishment cannot find the time or the available facilities to save their lives."

Despite these obvious flaws, recent opinion polls show that Canadians are generally satisfied with their government health-care system. It is doubtful, however, that many Americans would embrace a Canadian-style system with such equanimity.

—Kara Finnegan





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## COVER STORY

also may reflect the fact that many small firms employ family members.

It is also clear that smallness itself is a major handicap in holding down costs. Small firms pay higher premiums per employee largely for two reasons: Insurers use questionnaires to assess the health status of each covered individual, a practice called medical underwriting. And insurers incur higher administrative costs per individual when handling small accounts.

Medical underwriting is the practice that drove Philip Leber's insurance rates through the roof. His problems began last year when the wife of one of his employees gave birth to a child with serious medical problems, causing the company's insurance carrier to pay claims  $2\frac{1}{2}$  times larger than premiums received.

At renewal time, Leber's insurance company evaluated the health status of each employee and covered dependent, and it assigned premiums accordingly. Insurance brokers characterize this as "medical red-lining," describing it as an attempt to discourage business from companies or groups likely to incur high medical costs.

Medical underwriting also leads to denial of coverage for people who have chronic health problems, such as heart disease or cancer. This makes it nearly impossible for many small companies with covered individuals in need of expensive care to shop around for lower rates, because no insurance company will bid on a plan that includes someone with a chronic illness. "Unless you have a healthy group, you can't move," says Howard Soltoff, a partner in the insurance brokerage firm of Foster, Soltoff

& Love Ltd., located in Bethesda, Md.

In addition, administrative costs are higher for small companies because of low volume. It is more expensive for an insurer to handle 10 employees in 100 companies than 1,000 employees in one company.

Most large companies now trim administrative costs, which run as high as 30 percent of premiums, by self-insuring, essentially putting money in a bank account and paying claims as they come in. Large firms can do this because they spread the risks over many employees. This option is unrealistic for small companies, because a single major claim could bankrupt the health-care reserve.

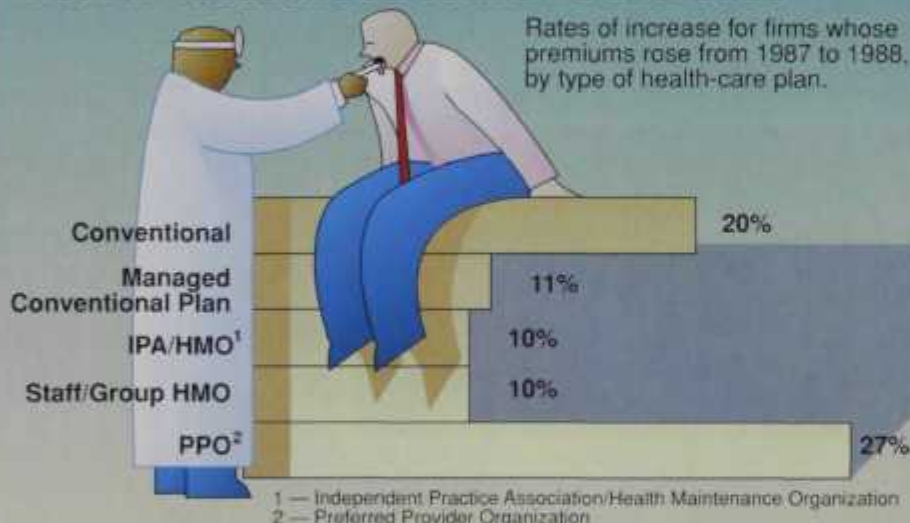
There are other, even more important benefits to self-insurance. Under federal law, an employer who self-insures need not comply with state mandates for specific types of health coverage. There are 686 such mandates nationwide, covering ailments from AIDS to alcoholism and drug abuse, and services ranging from acupuncture to in-vitro fertilization. Federal employees, Medicare patients, and most state employees are exempt from these requirements, putting the burden of compliance on those firms that aren't large enough to escape through self-insurance.

Smallness also is a barrier when it comes to participation in HMOs or PPOs. While both can produce significant cost savings and represent a rapidly growing segment of the health-care market, small employers have only limited access to either. HMOs and PPOs have concentrated their marketing efforts among mid-sized and large firms.

With only limited access to HMOs and PPOs, small employers are left with two basic fee-for-service choices for health plans. One is a comprehensive plan in which employees pay a deductible and coinsurance on all services. The other is a basic hospital/major-medical plan in which deductibles and coinsurance typically apply only to non-hospital charges and to a portion of inpatient physician and surgeon fees remaining after an initial plan payment. Under both plans, employees choose their own doctors, who set their own fees.

Neither type of plan is structured to reward employers for cutting costs. A small company that manages to hold claims to 60 percent of premiums paid to the insurer still could get a hefty increase based on the traditional "community rating" system. Under it, premium increases are based on the overall experience of an insurer-designated pool of similar-sized firms in the area. Thus, even a company with relatively

## Health-Insurance Premiums Increase



Source: Health Insurance Association of America, Employer Survey, 1988

## Physicians' Median Earnings, 1987



Source: Medical Economics Co., Inc. Copyright © Medical Economics Co., Inc.  
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low use of health-care services can face premium increases if others in the pool cause significant expenditures.

**C**harles Gorenstein's experience is typical. His Falls Church, Va., law firm—Birch, Stewart, Kolasch, and Birch—has received two rate hikes this year totaling 47.5 percent, although health-insurance claims last year totaled only 57 percent of premiums.

"They [the insurance company] are basically trying to push us out the door," Gorenstein says. He added that he did not understand why the insurer was discouraging business from his firm when "they are making money on us hand over fist." The health plan at Gorenstein's firm covers about 75 employees.

A newer "tier rating" system does reward companies that hold costs down, but it clobbers those with big claims. Under the tier system, increases are based on the cost of medical inflation plus a charge for actual experience. Insurers divide employers into three or more claims-experience tiers and assign premium increases based on the tier. The problem is that almost every small company has a big claim sooner or later, making a leap in premium costs inevitable.

The question remains. What works?

A number of cost-management strategies are available to small companies willing to take a tougher approach to the challenge of restraining health-care costs:

- Shifting costs to employees to make them more sensitive to the wise purchase of health services;
- Requiring various forms of health-care management that reviews the appropriateness and effectiveness of services;
- Joining a well-run multiple-employer trust that gives small companies clout in the insurance marketplace;
- Adopting a wellness program that encourages employees to stay healthy and provides the resources to help them do so;
- Changing insurance carriers.

Although cost sharing with employees is potentially a highly effective management strategy, it is also the most controversial. Most employers don't want to be put in the position of charging more or cutting back on a benefit that employees have come to regard as an entitlement.

For competitive reasons alone, boosting employee health-care costs looks like a bad idea to many employers. "Frankly, if we pass these increases on to our employees, we are afraid we would start losing our employees to employers with lower health-care costs,"

## The Terms You Need To Know

In managing your company's health-care costs, you should be familiar with these terms:

**Deductible:** The initial amount of expense for medical or health services that must be paid out-of-pocket by the patient or the patient's family before the health plan begins payment.

**Coinsurance:** The percentage of costs that a patient pays after the deductible has been met. Total out-of-pocket expenses for an individual patient usually are capped at less than \$1,000.

**Health Maintenance Organization (HMO):** An organization that provides health services for a set premium, regardless of treatment. HMOs typically operate through one of two basic models of organization. One is a staff practice organized around a group of doctors; the other is an individual practice association (IPA), which does not require doctors to form a group. There are currently about 607 HMOs nationally, enrolling 32 million people.

**Managed Care:** Refers to three basic approaches to controlling the costs and

the use of medical services: HMOs, PPOs (definition below), and conventional insurance plans that impose any of various utilization-review strategies, such as preauthorization for hospital care or second surgical opinions.

**Multiple Employer Trust (MET):** A group of employers, usually from small companies, who band together to purchase health insurance at lower prices than available to individual companies.

**Preferred Provider Organization (PPO):** A hospital or a group of doctors that contracts with an employer to provide health services at a discount—usually 10 percent to 20 percent—in exchange for volume business. There are approximately 620 PPOs nationwide, offering services to more than 36 million people.

**Self-Insurance:** The employer acts as an insurance company, assuming the full or partial risks for health-plan costs and paying all claims directly rather than providing premiums to an insurer. The paperwork for requesting claims typically is handled by a so-called third-party administrator.

## Is Rationing The Answer?

In 1987, the Oregon legislature voted to stop spending Medicaid money on costly organ transplants, diverting scarce funds instead to help thousands of poor, pregnant women obtain prenatal care.

Last spring, the legislature went a giant step further, voting to guarantee all poor people minimal treatment under Medicaid.

To stretch available funds, the state will rank treatment in order of importance and pay only for services at the top of the list.

Rankings will be based on a combination of cost, lifesaving potential, and degree of improvement expected in a patient's life.

Although no one likes rationing health care, Oregon's approach to setting priorities may be a model of what is to come nationwide unless health-care costs are brought under control.

Since approximately one-third of U.S. health-care expenditures are incurred by people over 65, some experts foresee a different form of rationing in the fu-

ture—one that is dependent on age.

Studies have shown that 25 to 35 percent of Medicare expenditures in any year go to 5 to 6 percent of enrollees who will die within a year.

The British National Health Service largely uses age to determine who receives certain types of treatment. For example, in Britain, lifesaving kidney dialysis is not given to people over the age of 55.

As the baby-boom generation begins to retire early in the next century, some experts believe, health-care rationing is inevitable.

The demand for services will simply outstrip available resources.

Daniel Callahan, one of the nation's leading medical ethicists, maintains that an age-based standard for rationing would be legitimate since, in any event, medicine can provide only limited benefits to people over 70.

Critics of rationing argue that the U.S. can afford to take care of the poor and elderly by raising taxes and allocating medical resources more efficiently.



## COVER STORY

says David A. Raine, president of Raine & Son Inc., a plumbing contractor in Hyattsville, Md. He maintains a plan without cost to his 75 employees.

Nevertheless, studies have shown that insulating employees from the cost of care encourages higher use of health services. A landmark Rand Corp. study of health-cost management found that participants required to pay a \$100 deductible used the health plan 19 percent less than those who paid no deductible. Those who paid a \$500 deductible cut usage 27 percent compared with those with no deductible; and those who paid a \$1,000 deductible cut usage by 39 percent. After five years of tracking the health status of 8,000 people in the study, no significant health differences were found between groups that used the most health services and those that used the least.

To squeeze out unnecessary use of doctors' services, many health-care consultants believe the individual deductibles should move into the \$300 to \$500 range over the next several years, with



PHOTO: © GAIL DI MARCO-BLACK STAR

**Fred Rohm**, president of the New Castle County Chamber of Commerce in Newark, Del., administers a multiple-employer trust that sells health insurance to more than 1,000 small-business owners like **Ruth Campbell**, who operates a clock-repair business from her home.

## An Alternative To Mandates

As health-care costs continue to soar, Congress is being pressured to do something about providing health coverage for those who do not have it now. The question is, what approach should Congress take?

Mandating employers to provide health insurance is one option under consideration. Sen. Edward M. Kennedy, D-Mass., has introduced legislation to do just that. Business overwhelmingly opposes it. "The Kennedy approach fails to recognize that the real problem with providing health care to more people is that it costs too much," says Rick Berman, chairman of the Partnership on Health and Employment, a rapidly growing, Washington, D.C.-based coalition representing nearly 1,000 companies nationwide.

The Partnership, spearheaded by the U.S. Chamber of Commerce, has taken a leadership role in opposing mandates while promoting reforms "to make the whole system more efficient and thereby more affordable," says Berman.

"The mission of the Partnership is to educate the media, the Congress, and the general public that the Kennedy 'political-quick-fix' approach will cause more long-lasting harm than good," says Berman. "Partnership resources largely will be committed to that goal."

"The Kennedy approach is that

Washington can dictate what every employer should be doing," says Frederick J. Krebs, manager of business-government policy for the U.S. Chamber. "There is a real 'inside-the-Beltway' arrogance about that approach."

Small companies would be hardest hit by the Kennedy bill because they could least afford the stiff costs. Mandates would force many small-business employers to shift the costs of health care back to employees in the form of lower wages or reduced employment. Thus, "employer-mandated health insurance will end up hurting the very people it is intended to help," says Princeton University Prof. Uwe Reinhardt, an expert in medical economics.

But the Kennedy bill also would hurt larger firms, as they find that their health plans fall short of the specific benefit requirements, Berman warns. "In fact, if the Kennedy bill were enacted, every year Congress would be asked to mandate broader and broader coverage."

In testimony recently on behalf of the U.S. Chamber of Commerce, David A. Raine, a Hyattsville, Md., plumbing contractor, told the Senate Labor Committee that rather than mandates, "filling the gaps in coverage will require building upon the employer-sponsored system by making coverage more af-

fordable and available for small business and ensuring that public-sector programs meet the needs of the poor."

A bill that closely follows this approach has been introduced by Sen. Orrin Hatch, R-Utah, and has been endorsed by the Partnership on Health and Employment. Hatch's health package would take these steps:

- Pre-empt all state-mandated health benefits, allowing small firms to work with insurance companies to develop low-cost, no-frills health plans.
- Promote the development of state insurance risk pools for individuals who are uninsurable.

- Authorize development of federal treatment-practice guidelines for physicians, which, if followed, would be a defense against medical malpractice.

Hatch says he soon will introduce additional legislation to:

- Expand Medicaid, the federal-state health-care program for the poor, to cover all the poor (not just the 40 percent now covered) and allow those just above the poverty level to purchase Medicaid coverage.

- Give self-employed people and unincorporated firms the same 100-percent tax deduction for health-care premiums now given to incorporated businesses.

For more information about the Partnership, including details on joining, contact Rick Berman, Chairman, Partnership on Health and Employment, P.O. Box 27414, Washington, D.C. 20038. The telephone number is (202) 463-5327.



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## What is this remarkable product called *Your Marketing Genius at Work*?

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It's no wonder, then, he's become the most expensive (and successful) marketing consultant in America. He regularly charges fees of \$2,000 per hour (this is no misprint) or 25% of the profit his efforts produce—whichever is greater. On that basis, he's earned millions of dollars a year while making his clients tens of millions more.

His approach to business is different from anything you've

ever heard about, read about or tried before. It's definitely not the stuff they teach at Harvard Business School. But, his unorthodox methods often catapult his clients past their competition in a matter of a few short years. Frequently much quicker!

The only problem is Jay can't handle all the companies that come to him. Thousands of businesses could double or triple their annual profits using his services. But, since it takes the same amount of time to work on a deal that earns \$10,000 as it does one that makes \$100,000, Jay must spend his limited time on only those clients who will make him the most money.

Five years ago, though, he started spending what little spare time he did have writing down the profit-boosting methods he's used so successfully for the last twenty years—methods that grow business profits like crazy.

The result? His system is now explained in a fascinating home-study course Jay calls *Your Marketing Genius At Work*. He breaks his techniques down into 18 monthly reports plus several bonus supplements. Each clear, concise report can be read and mastered in less than an hour, and his methods can be applied the same day you learn them.

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## COVER STORY

family deductibles twice to three times the individual rate.

Once deductibles are adjusted upward, employers can avoid the problem of periodically ratcheting deductibles even higher. They can index the figure to adjust automatically with, for example, annual medical-cost inflation, says Nussbaum of Coopers & Lybrand. This prevents the reverse effect—shifting costs to the employer.

While cost sharing will slow demand for health services, it is unwise to focus solutions on only that area, says Larry S. Chapman, president of Corporate Health Designs, a consulting business based in Seattle. He stresses the need to manage the use of health services.

In fact, "managed care" has become the fastest-growing trend in the health-care industry. Seventy-two percent of Americans who obtain health insurance through an employer now are enrolled in a managed-care plan, compared with less than 20 percent in 1984, says Gabel of the HIAA. For the purposes of its survey, the organization defines managed care as an HMO, a PPO, or a conventional fee-for-service plan with preadmission certification for hospitalization. The term "managed care," however, usually encompasses any manda-

tory review of health-care services.

While the industry is rapidly converting to managed care, Gabel advises insurers and employers not to overestimate the possible savings. "If it's done right, [managed care] certainly will be better than the way business was done in the past," says Gabel. "But it isn't done right in many cases."

Gabel recalls that the insurance industry was overly optimistic about previous managed-care initiatives. To curb unnecessary hospital admissions, many insurers in the mid-1980s began to require second opinions for many types of surgery and to offer incentives for use of less expensive outpatient clinics. Typically, outpatient treatment required no preauthorization and no coinsurance payments.

Second opinions, however, may cost more than they save. Recent surveys indicate that 92 percent of all second opinions uphold the first. In many cases, outpatient care now rivals the cost of hospitalization as doctors and hospitals shift costs to make up for the loss of inpatient revenue. Most consultants now recommend preauthorization for outpatient treatment and the same coinsurance required for hospital care.

HMOs, once heralded as a revolution

in health-care delivery, also have failed to deliver promised cost savings. Only one-third of the employers surveyed by Foster Higgins in 1988 said their HMOs were effective in controlling costs. While some firms have saved 30 percent or more with PPOs, the discounts offered by the medical group providing care typically are offset by more frequent office visits, says Jack Mahoney, vice president of Alexander Consulting Group Inc., in Lyndhurst, N.J.

Despite these drawbacks, many consultants still view well-run HMOs and PPOs as attractive alternatives to conventional insurance plans for small firms.

**W**ithout joining an HMO or PPO, one effective way for small employers to obtain lower rates is to join a purchasing group known as a multiple employer trust (MET). Most METs are run by associations on behalf of their members. By pooling the needs of many small companies, the MET can secure lower rates not available to individual companies. To date, however, very few have been aggressive about health-care cost containment, says Chapman.

There are some notable exceptions, however. Fred Rohm, president of the New Castle County Chamber of Commerce, in Newark, Del., directs a MET that supplies health insurance for about 1,000 small businesses, covering 3,000 people. The MET offers one conventional plan and two HMOs. Rates usually are comparable to those offered to much larger employers, thus saving costs for those enrolled.

John Polk, executive director of the Council of Smaller Enterprises of the Greater Cleveland Growth Association, runs the country's largest association health plan for small employers. Though technically not a MET—a term that implies certain legal requirements—the council negotiates the terms of group health-insurance plans on behalf of 6,200 of its members, covering 44,000 employees and 76,000 dependents. Two-thirds of those companies employ five or fewer workers.

"The cost of our health insurance has increased a total of 21.5 percent in five years," says Polk. The average individual premium is about \$180 a month, or \$2,160 a year. "That's a pretty good for a town where health-care costs are about twice the national average."

Generally, insured METs—those backed by an insurance company—have a better track record than self-insured METs—those not backed by an insurer. Under state insurance regulations, insured METs "can't collapse and leave employers holding the bag," says George Pantos, a Washington labor

## The insurance renewal process, problem or solution?

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Many small employers who face the group health-insurance market on their own end up changing insurers every two or three years in search of lower rates. In an industry with roughly 1,500 commercial insurers, shopping for a better buy is standard practice. With many buyers and sellers churning the market, however, insurers typically will offer an attractive rate initially, then seek higher premiums at renewal time, Chapman says. "The way to smoke out the lowball deals is to negotiate a two- or three-year contract."

The most effective way to contain health costs is to prevent illness and disease. The U.S. Centers for Disease Control estimates that 53 percent of the premature deaths in the country are attributable to lifestyle circumstances such as smoking, drug and alcohol abuse, diets high in fat and low in fiber, sedentary living, and failure to use automobile seat belts.

A growing number of employers, though few small ones, have implemented wellness programs to encourage employees to alter behavior that could harm their health. Typically, these programs monitor cholesterol and blood pressure, encourage smokers to quit, and promote fitness, stress management, and weight control. Some programs offer cash incentives for staying healthy and not using the medical plan.

"More and more insurance companies seem to be interested in giving a discount to employers who participate in wellness programs," says Jan Peter Ozga, president of Ozga Operations, a Falls Church, Va., health-consulting firm.

**W**hile it is clear that the system of health-care delivery in the U.S. must change, it's too early to tell what form that change will take. Private-sector solutions to spiraling costs are available, but as yet they have not been implemented aggressively.

Small companies must make hard choices. It's time to rethink the goals of company-sponsored health insurance; it's time to design plans according to new realities of the marketplace.

Experts maintain that cost-sharing, tighter management of care and delivery, and effective wellness programs are the ways to go. But insurers and businesses appear to be running out of time to make these strategies work. Warns Ozga: "This may be the private sector's last shot before we get a national system of health insurance." ■

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To order reprints of this article, see Page 80.

# Success By Surprise

By Charles A. Jaffe

*Call it accident or serendipity or luck, but sometimes an entrepreneur just stumbles upon a winning business idea.*



PHOTO: BRUCE BORNH

*It was in their Ormond Beach, Fla., toy store that Rob and Betty Pepper made the discovery that steered them into a new venture. They found that many customers wanted to buy swing sets that they could build themselves, so the Peppers designed a build-your-own set and formed Child Works Inc.*

**D**on Cullen didn't think much about it when a worker at his company, Transmet Corp. of Columbus, Ohio, spilled a box of particularly fine aluminum flakes onto the parking lot one day in July 1983.

Two months later, when high temperatures had turned the pavement sticky, Cullen noticed that the sprinkling of confetti-like flakes that remained after the cleanup had adhered to the asphalt, and the spot where they had fallen was hard.

"We saw this, realized what had happened, and said, 'Boy, that's interesting. What can you use it for?'" Cullen remembers. "One of our engineers said he thought we could use it as a roofing product, and we decided to check it out."

Tests showed Cullen that the specially processed aluminum flakes, which Transmet was selling as an additive to make plastics electrically conductive and more durable, would be an improvement over gravel for use in industrial roofing. After three years of research and development, Transmet was producing aluminum chips for use in roofing. Sales of the product have doubled every year since its introduction, and Cullen says the roofing material will "dwarf" Transmet's revenues from the aluminum flakes used for plastic enhancement.

"The development of this product might have happened years from now, because we were looking for other applications," Cullen says. "But we wouldn't have the roofing product today if the box hadn't been dropped in the parking lot."

Sometimes, business ideas start by accident or are stumbled upon by entrepreneurs or inventors looking to do something else. There are no statistics kept on products or businesses with fortuitous beginnings, but consultants and educators who study innovation say such instances usually follow one of several patterns. The most easily recognized is the business or product discovery started by accident, like the dropped box of aluminum flakes. It is more common, however, for an entrepreneur to find a new opportunity as

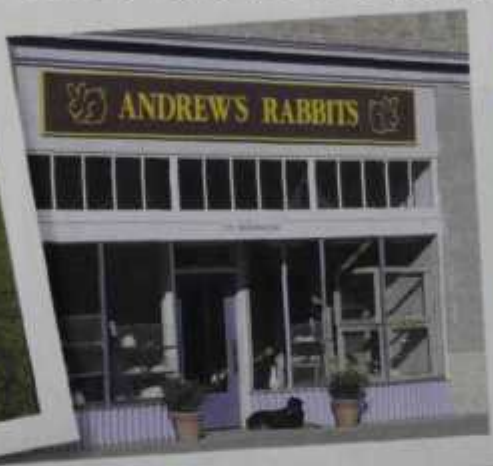
*Charles A. Jaffe is business editor of The Morning Call, in Allentown, Pa.*



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## ENTERPRISE

part of the regular course of business or as a surprising offshoot of the product-development process.

Engineers at 3M Corp., for example, came up with Post-it notes while trying to design a bookmark that would not slip out of church hymnals.

The discovery of such a business opportunity is sometimes called the "eureka phenomenon." It hinges on recognizing the possibilities in what happened.

"You have something that goes wrong or a problem that has to be solved, and suddenly the light bulb goes on, and—eureka!" says Marcia Rorke, who runs Mohawk Research

growing sales overseas, wanted to speed the processing of orders. Adams' suppliers would also have to buy fax machines under the arrangement.

"I didn't really know anything about fax machines, and it was tough getting that information," says the company's president, Charles Adams. "The local copier dealers usually carried only one line, and they didn't have a lot of product knowledge. We decided that this could be a good opportunity for us, if we could carry a lot of lines and sell by mail order at a discount. Our suppliers were our first customers."

In complying with an ordinary re-

right-place, right-time discovery of the burgeoning fax market.

"I'd wager that for every one person who would start that business, there are 1,000 people or more who would have just gone out, bought the fax machine, and not given it a second thought," says LaRue T. Hosmer, a professor of corporate strategy and director of the Magna International Office of Entrepreneurial Studies at the University of Michigan. "The person may be lucky to be in a certain situation, but without the recognition of the opportunity, there is no business."

**R**ecognition alone does not ensure success, however. Like any other business venture, the accidental or serendipitous discovery requires research and marketing to keep it from failing.

"A lot of people, as they proceed down the path of development, find a greater need than the one they set out to fill," says Brian Vogel, senior vice president of Product Genesis Inc., a Cambridge, Mass., product-development firm. "They've spent time and money on development, but switching gears to pursue the greater need and the greater profit potential means they have to go back to square one or at least make sure they have covered those bases. Otherwise, they are starting in the middle of the process, which can easily come back to haunt them."

Robert McMath, a business consultant and director of the New Product Showcase and Learning Center in Canandaigua, N.Y., says: "Regardless of how you come up with an idea, there is no substitute for marketing know-how and the backing to check the product out and make sure everything is right. You have to do patent checks and trademarking, and you have to find out who else might have this same idea. If you come out with a 'me-too' product, you could very well be wiped out by the competition, particularly if the other guy is a big corporation."

It was by accident that Spencer Bennett discovered his "superior product"—a fertilizer he called Liquid Cow—but he also discovered that he "could barely get it to market."

In 1981, Bennett, a builder in Bradford, N.H., started constructing energy-digestion facilities, in which machines use cow waste to produce methane, which is converted to electricity. The machines use bacteria to digest the manure, and they also produce a sanitary leftover liquid. Bennett's clients were New England farmers; they were using his manure-to-energy machines to convert their herds' waste into electricity, and they were irrigating their fields with the leftover liquid.

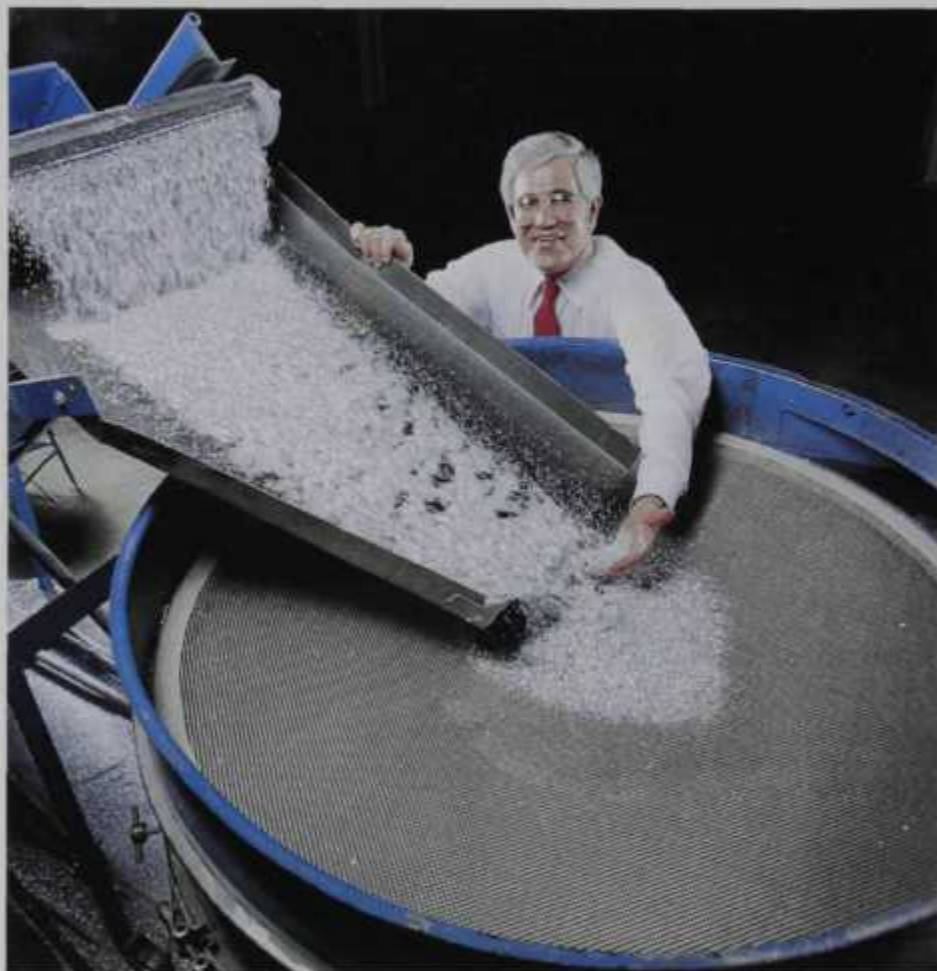


PHOTO: JEFFREY A. RYAN

**Don Cullen found it interesting** that spilled aluminum flakes—his company makes them for use in plastic products—had stuck to asphalt in the company parking lot. His curiosity led to development of a new roofing material, and now its sales are doubling every year.

Corp., a Rockville, Md., product-development consulting company. "If the person who makes the discovery can pull together the business resources to make it work, there is no reason that this serendipitous stuff can't become a viable product or opportunity."

In 1984, a Japanese customer asked the C.T. Adams Lumber Co., in Greensboro, N.C., to buy a facsimile machine. The customer, important to Adams'

quest from a customer, Adams saw—and acted on—an unforeseen business opportunity. He formed a company called Fax City. Although it accounts for only 10 percent of Adams' overall sales, Fax City, now run by his wife, Mickie, has sold more than 1,200 fax machines in the past four years and expects sales of more than \$1 million for 1989. None of it would have happened if Adams had not pursued his



# 30 major improvements to the electrical system mean more UpTime. Coming this fall.



And their crop yields were rising 20 to 50 percent.

Bennett learned that the liquid made an ideal fertilizer. While maintaining the growth-enhancing characteristics of manure, the energy-conversion process imbued the liquid with the chemical agents that farmers normally use as top dressing for fields on which they spread manure. "It was everything the farmer needed in one product, only better, because the energy digester removed impurities," Bennett says.

It looked to Bennett like an example of one person's garbage becoming another person's gain. In 1984, through his construction firm of Hadley & Bennett, he launched Liquid Cow. It was essentially the leftover liquid from the energy-digestion machines, with a masking agent added to improve the smell, and it was marketed as a liquid fertilizer for farms and home gardens. Bennett developed a clever logo and put the product in bottles with squeeze-top applicators.

Although test customers said they were satisfied, Liquid Cow didn't sell, and Bennett had trouble competing for retail shelf space with big companies' brand-name fertilizers. He also found that the bacteria used to digest the manure kept producing a small amount of methane, making the bottles bulge out of shape on store shelves.

"We would have been better off putting it into milk jugs and spending every penny on marketing," says Bennett, who solved the bacteria problem but stopped producing Liquid Cow in 1986. "It seemed like our best customers—when we went to places like farm shows—were 12-year-old boys," Bennett adds with a laugh. "I couldn't figure it out until I followed them; they were squirting it on girls. Maybe I should have marketed liquid manure as a gag Halloween gift."

It was a different holiday that turned Wendie Every into an entrepreneur. Working for her husband's independent trucking company in Bend, Ore., in 1980, Every couldn't find Christmas cards that suitably represented the business. So, with a trucking motif in mind, she designed her own card.

"People we did business with kept calling and asking if I could do one for them, so I developed 11 designs and went into business the next year," says Every. She advertised her cards with fliers placed in West Coast truck stops. "There was an obvious need for specialty cards, particularly in trucking, which has traditionally had a bad reputation," she says.

In 1984, Every took on a partner, formed We Create Ltd., and moved the

business out of her garage. The firm sold 15,000 cards the next year, each with its 800 phone number on the back. Every says the 800 number and a hand-picked mailing list of trucking companies helped the business take off.

We Create sold 350,000 cards and racked up more than \$325,000 in sales last year, and Every expects to sell more than 500,000 cards in 1989. The company recently bought out its print shop and unveiled a new line of cards for veterinarians. Every has long-range plans to develop cards customized for other industries.

"What I was looking for in a Christmas card in 1980 is, apparently, the kind of thing that a lot of people in the industry wanted but didn't know where to get," Every says. "I had no idea it would turn out this way; if I had settled for a mass-produced Christmas card, I'd probably still be working for my husband."

Rob and Betty Pepper were happy with their fledgling Ormond Beach, Fla., toy store until they realized that customers wanted to buy swing sets they could build themselves. After months of research, the Peppers learned that other toy retailers had received similar customer requests and that no one seemed to be producing the product. The Peppers set about designing a build-your-own swing set.

They commissioned a Taiwanese company to supply the materials for the swing sets, took a second mortgage on their house, and formed Child Works Inc. "We weren't sure it was really viable," Rob Pepper recalls, "but it certainly looked to us like we had come upon a good idea that no one else had discovered."

Pepper kept the toy store and Child Works separate, in case he had misread what seemed like such an obvious unmet need in the playground-equipment market. After losing money during its first year, Child Works broke even in 1987 and made money last year. The Peppers closed the toy store last December. "We just planned to have our toy store and bumble along when we stumbled onto something good," Pepper says. "The scary thing is that since we've gotten into this, we found other companies doing the same thing. Luckily, they go after the big toy-store accounts, and we want to go after the small guys."

"When you find a need for a product and discover how to fill it, you're crazy not to give it a try," Pepper adds. "There's risk, but there can be so many positives that if you believe you've really found something and can carry it off, it has to be worth a shot." NB



## FAMILY BUSINESS

# Staying Aboard After The Sale

By Sharon Nelton

*Former owners can keep on making important contributions to their companies.*

**T**hey felt burnt out, and they just couldn't seem to move their 14-year-old company beyond \$2 million in annual sales. So earlier this year, the husband-and-wife team of Rachel Borish and Jeff Slater sold their Malvern, Pa., firm, Rachel's Brownies, to GoodMark Foods Inc., a meat-snack company best known for its Slim Jim spicy meat stick.

This summer, the couple moved to Raleigh, N.C., where GoodMark is headquartered. Borish, who spends most of her time looking after the couple's two daughters, will serve as a consultant to GoodMark, and Slater has a two-year employment agreement as marketing manager for the Rachel's line.

Can Slater, 35, make the tricky transition from co-owner of an entrepreneurial, family-held business to corporate employee who must work with new bosses? "We have no way to know that and only can hope that that's what happens," says Alvin C. Blalock, GoodMark's vice president of personnel and corporate relations.

But Slater is determined to try. And while many such transitions don't work out, there are precedents for success. Three years ago, Malvin and Leon Kaufman sold Plantation Baking Co., of Lake Bluff, Ill., to Wyndham Baking Co. Inc., of Augusta, Ga., which itself is owned by Wyndham Foods Inc., of San Francisco.

The Kaufman brothers stayed on to run Plantation, which makes cookies and brownies distributed nationwide and which also includes Mal's son, Steven, 27, and a nephew, Jeff Kaufman, 41, among its 200 employees.

Plantation has not sagged under new ownership and old leadership; profits have increased more than 20 percent since 1986. The Kaufman brothers' three-year contract with Wyndham ends this year, but neither Mal, 60, nor Leon, 62, wants to quit, and Wyndham Baking's president, Wyman C. Harris, says he doesn't want them to.

Another family-business owner, Richard N. Frank of Los Angeles, sold Lawry's Foods Inc., famous as the maker of Lawry's Seasoned Salt, to Thomas J. Lipton Inc., a wholly owned subsidiary of Unilever, for \$66.5 million 10 years ago. Frank stayed on, first as president and then as chairman, helping



**Still at work** at Plantation Baking—the firm their family sold in 1986—are Mal, Leon, Jeff, and Steve Kaufman.

to build Lawry's to more than \$160 million in sales when he left at age 65 last year. He "retired" to another family-owned company, Lawry's Restaurants Inc., a \$22-million-a-year restaurant chain that he had been running side by side with the larger company.

Why sell if you love the business and want to stay with it? When they began to plan their estates, Mal and Leon Kaufman concluded that selling was in the best interests of their families. If either brother were to die unexpectedly, taxes and buy-sell agreements would have put an enormous financial burden on the company, and they did not want to purchase the large amount of life insurance necessary to ease the burden. Selling, they decided, was the best way to secure what they had built up over the years. They have no regrets about not passing on the business to their children.

"Running money is as much of a business as running a business," says Mal Kaufman. "So if [the children] are going to run the business, let each heir run the money instead."

Richard Frank decided to sell Lawry's Foods because by the late

1970s, more than 35 members of the family, down to the third and fourth generations, held stock. While there was no pressure to sell, some of the family members had begun to show interest in cashing in. Moreover, there was significant activity in acquisitions at the time, Frank recalls. "This was a good time to sell."

Slater and Borish had reached a point where they needed vast infusions of cash and experience to make Rachel's Brownies grow. They decided that the best option was to find a larger company that could run Rachel's and help open doors to wider distribution. Slater also wanted to become a part of a company where he could learn to be "a better manager and a more strategic thinker about the business than a hands-on operational manager who is always in the middle of the crisis of the moment." GoodMark, with \$130 million in sales and a strong distribution network, seemed to offer the right fit.

Like the Kaufman brothers and Richard Frank, Slater put considerable thought into the process of selling the firm and acquiring new bosses. But there are still a few things he says he might have done differently.

If you are thinking of selling a family-owned company and staying on to run it or taking some other role under the new owner, here, based on the expe-



periences of these and other businesses, are some points to consider. Remember that what you do ahead of the sale has everything to do with how things will go afterward.

#### Do your homework far in advance.

Think of selling a business as a process that begins long before you put it on the market. Slater says he learned about the procedure "while I was in the middle of trying to do it, and that's not the best environment to learn something." It's better to begin even years ahead of the sale, he says, because then you'll have the insight you need about what businesses are worth and how deals can be structured, and you'll still have time to take action to produce the results you want. Slater advises that you shore up your knowledge by attending seminars on selling a business and talking with people who are in the business of selling businesses.

**Determine what you want the nonfinancial outcome to be.** On the advice of Jack O. Vance, senior director in the Los Angeles office of McKinsey and Co. Inc., a management consulting firm, Richard Frank drew up a "white paper" listing all that he wanted for the company beyond the financial terms.

It looked at such questions as: What do you want to do for yourself? Are you willing to stay on after the sale? If so, what kind of a contract will you give your new employer? What do you want to do for your employees?

Frank, who wanted to continue running the company, requested that the purchaser agree to make no changes in the operation of Lawry's Foods for three years. He wanted to prevent impulse changes or actions such as plant closings that might harm employees.

At Vance's suggestion, Frank's white paper also included the stipulation that he have a seat on the purchasing company's board. That would give him prestige in the buyer's company and would help prevent the parent company's middle managers from trying "to play around with the new company toy," as Vance put it.

**Get to know potential buyers as thoroughly as you can.** Though sellers and buyers alike agree you can never predict for certain whether a relationship will be successful, you still have to work toward the best match of personalities and corporate cultures.

From the number of companies interested in Lawry's Foods, Frank narrowed his finalists down to six that he thought would meet his nonfinancial objectives, figuring they all could meet his price. Says Frank: "The price really wasn't the factor as much as which

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company did we want to become associated with. The company I wanted to be associated with was the company that I thought would more closely represent our kind of thinking [in terms of] ethics, attitude toward quality, and the ethereal—the psychological parts of business, the unwritten stuff."

**Consider the implications for other family members in the business.** Dennis Jaffe, a San Francisco psychologist and family-business consultant, says that in some family businesses, owners don't help other family employees develop professionally or review their performance, and the owners may look the other way when those family members don't measure up. But Jaffe notes that when the business is sold, the company's new owners are likely to hold all employees, including family members, accountable for their jobs.


**Prepare yourself psychologically.** Change will occur, either in the way the company is run or in your attitude toward it, contends Richard Frank. While he worked hard and was dedicated, Frank feels he didn't have "the same kind of intensity" after he sold Lawry's Foods.

Wyndham Baking owns eight companies besides Plantation. Wyman Harris says he understands how difficult it is for entrepreneurs to adopt corporate behavior, and Wyndham doesn't try to force them to change. Harris' approach is to let a former owner continue his old way of running a business "so long as it's not counterproductive."

As Jaffe points out, family-business owners become subordinates when they elect to stay on with a new owner. He advises them to prepare by attending management seminars or retreats where they can get a thorough assessment of their management style and learn what their strengths and weaknesses are likely to be in a "completely unbiased, unimpressed world." They may find they want to take the money and start another business rather than work for somebody else.

But Mal Kaufman says he doesn't think he has changed one bit since he and Leon sold Plantation Baking. He thinks he works just as hard on behalf of the company as he always did. "Most of the time I forget I sold it; I still think it's my company," he says. "Now figure that one out."

*For examples of entrepreneurs who found they could fare better after selling their firms, see the story on Page 46.*

 To order reprints of this article, see Page 80.



# Sports Tie-Ins Help Firms Score

By Glen Macnow

**T**he people at the T.W. Garner Food Co. had been making a zesty condiment for more than 60 years, but they never could come up with just the right formula for promoting the product. They felt that newspaper ads could not do justice to their Texas Pete hot sauce, and they found television-advertising costs prohibitive.

So executives of the firm, based in Winston-Salem, N.C., asked some other Southern companies for marketing ideas. If you want to reach a young, surprisingly affluent audience with a sizable female contingent, the answer came back, try auto racing.

The company did. "It's amazing the number of people you can reach on the racing circuit," says Cathryn Garner,

*Glen Macnow covers the business of sports for the Philadelphia Inquirer.*

the company's special-events director and a member of the owning family. "For building up product awareness, for reaching an audience of potential consumers, we were told that there isn't a better way."

For the past three years, Texas Pete's name has been splashed over the company's entry on the circuit sponsored by the National Association for Stock Car Auto Racing (NASCAR).

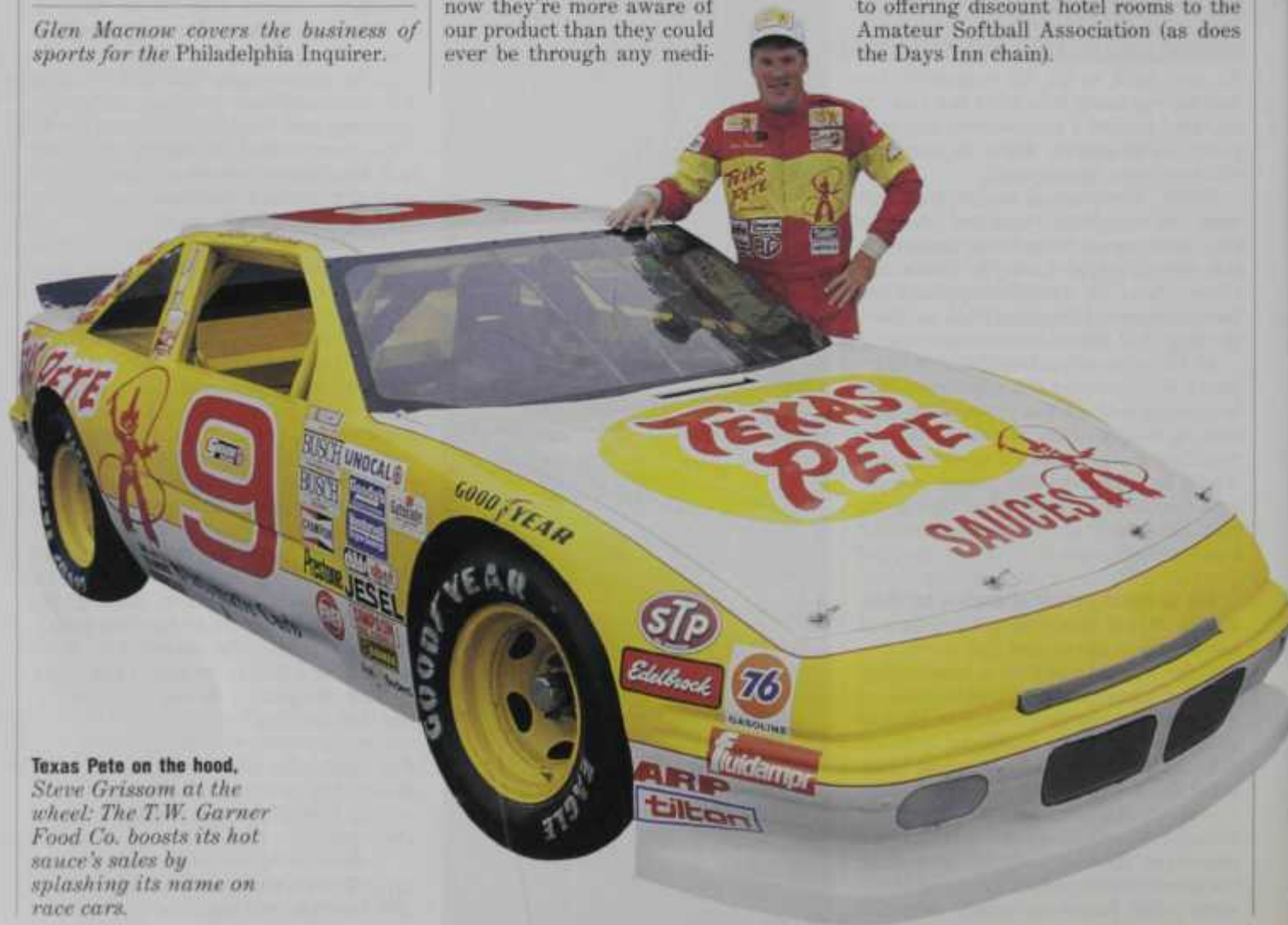
That meant network television exposure last year when the Texas Pete car was the Daytona 500 pole-sitter, the entry whose trial times earned it the favored position next to the pole at the starting line.

"The key, of course, is results," says Garner, "and sales are up significantly. Race fans are the buying public, and now they're more aware of our product than they could ever be through any medi-

um. We've tried lots of things over the years, but selling at 200 miles per hour has proven—by far—to be the most effective."

Once the exclusive domain of such business giants as auto manufacturers and major beer companies, sports marketing is now attracting the little guys. More and more companies are finding athletic tie-ins an effective way to reach a targeted market.

The sponsoring companies' strategies range from organizing college basketball tournaments (the Acme Boot Showdown in Clarksville, Tenn.) to purchasing the naming rights for a stadium (Pilot Field in Buffalo, N.Y., after Pilot Air Freight); from bankrolling the Ladies Professional Golf Association (as does Chicago-based All Set Hair Spray) to offering discount hotel rooms to the Amateur Softball Association (as does the Days Inn chain).



Texas Pete on the hood, Steve Grissom at the wheel: The T.W. Garner Food Co. boosts its hot sauce's sales by splashing its name on race cars.



*More and more smaller companies are finding athletic sponsorships effective ways to reach target audiences; they should be aware, however, of potential problems.*

Overall, 2,800 companies will devote \$2.1 billion to sports marketing this year, according to the Chicago-based trade publication *Special Events Report*. That represents a 150-percent increase in spending since 1985.

"Sports marketing... has been tremendously successful," says Nat Walker, senior director of public relations at RJR Nabisco. "And when something is effective like that, it will continue to grow." Walker should know. RJR Nabisco will spend an estimated \$60 million on sports sponsorships in 1989.

**M**ost firms cannot dream of such a lofty budget. But that does not mean they cannot be effective.

One way is to sponsor an activity within a larger event. For example, Bob Cohn, head of the sports-marketing firm Cohn & Wolfe, in New York City, points to such activities as basketball-shooting contests open to fans during halftime at professional basketball games. "It doesn't cost much," he says, "and you're creating an interactive event which allows the consumer to become involved in a way that he remembers who is sponsoring the activity."

Likewise, Lesa Ukman, editor of *Special Events Report*, points to the promotion in which a fan at Buffalo Bills' baseball games is invited out of the stands to try to catch balls shot—at a safe velocity, of course—from a cannon. If the contestant catches three straight balls, every fan in the park wins a pizza from the local chain sponsoring the stunt. "In many ways, sports sponsorships are best suited for small companies," says Ukman. "Most events are local in nature, and big national companies don't have the field people to know which event in Detroit or Miami is the right one. The local people know what's good, what's mediocre, and how to respond."

Consider the example of the year-old Watermark Corp. of Sausalito, Calif. The company bottles sparkling and pure spring water, and it makes and sells filtration and purification systems for homes and businesses. Like other new firms, the company found its biggest challenge was to gain name recognition. It decided to sink 10 percent of its annual advertising budget into spon-

soring sporting events such as long-distance road races as well as tennis tournaments—most notably the Oakland stop of the Virginia Slims tournament.

During breaks at that tennis tournament, players sipped Watermark water out of Watermark sport bottles. A Watermark booth distributed samples of flavored sparkling water to more than 4,000 tennis fans. There was a hospitality party, attended by players, held for Watermark's customers. And the company splurged on local 30-second ads during the finals, which were broadcast nationally on ESPN.

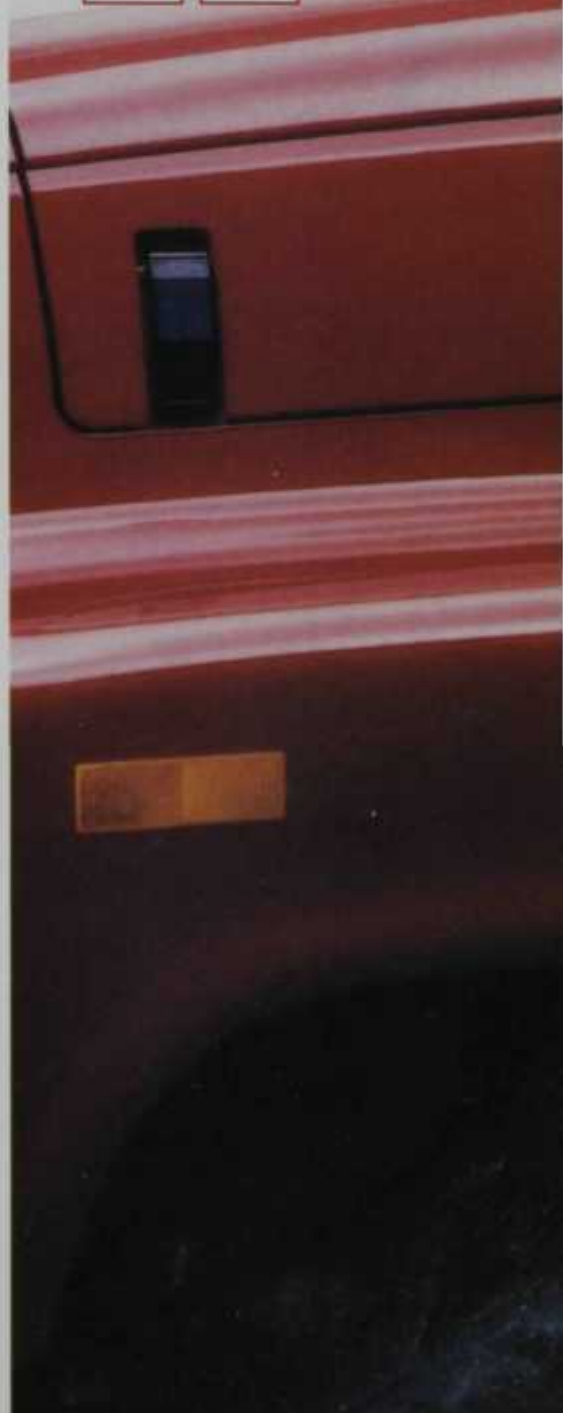
The promotion cost somewhere in the "low five figures," says Diane Lydon, Watermark's assistant director of marketing. For two weeks afterward, she said, there was a significant traffic increase at the company's 10 retail stores. "We're trying to promote ourselves as a health-conscious product, so athletics was a natural tie-in," Lydon says.

Some sponsors are gaining even more control by starting their own events. When the Schick company wanted to increase sales to college students, it launched the "Schick Supers" competition featuring three-player basketball teams. First-round games were played at 800 colleges, and regional finals were held in 22 National Basketball Association arenas. Not surprisingly, sales of Schick products increased markedly on the involved campuses.

That program cost several hundred thousand dollars. But more modest campaigns—with more modest budgets—have proven effective. Indeed, for as little as \$7,500 a company can gain local and national exposure by sponsoring a night at the tractor pulls. If that sounds like small potatoes, consider that a two-night pull at the Houston Astrodome this February drew a record 83,000 people.

TNT Motor Sports, one of several organizers of national truck- and tractor-pull circuits, has several employees who devote all their time to recruiting and assisting sponsors of events on its circuit. "Typically, we'll line up a local car dealership, a beer distributor, and a supermarket chain at each stop," says Karen Whitt, director of sponsorships for TNT. "We'll work with them to get them maximum exposure." That includes using the sponsor's name and

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## MARKETING STRATEGIES

logo in TNT media ads. It also includes complimentary tickets, public-address announcements, scoreboard mentions, and flags and banners. Often, those promos show up on TNT's twice-weekly shows on ESPN.

"Most companies decide to spend a little more and develop their own promotion," says Whitt. "For example, a Chevy dealership may decide to give away a truck at the event [a survey found that 72 percent of those in TNT's audience drive pickup trucks], so that a dealer may spend several weeks registering people for a drawing to choose the winner. Or we may provide them with 2,000 tickets to give to anyone who test-drives the dealer's car in a promotion leading up to the event."

**S**uch promotional tie-ins, industry experts say, are the key to successful sports marketing.

At the same time, sports marketing can hold potential problems for newcomers. Its growing popularity raises a risk that a sponsor's message will be lost in an increasingly crowded field, and a company considering sports sponsorship should be ready to deal with insurance, logistics, and unexpected costs.

There can also be a need to determine the financial responsibility of any individuals or organizations arranging activities for company sponsorship.

Editor Ukman of *Special Events Report* suggests that any company paying for a national sponsorship be prepared to spend at least three times the cost of the sponsorship on promotion; at the local level, she says, the ratio is at least 1.5 to 1.

While sports marketing can be highly effective, "you have to be prepared to promote the hell out of it," she says. "You can't just lay down \$10,000 for a sponsorship and expect the world to applaud."

Indeed, sponsorships have become so commonplace that they are no longer guaranteed to draw instant recognition. This year, 25 of the 39 televised Professional Golfers Association events are named for sponsors, as are eight of the 17 major college football bowls. No longer can a firm just slap its name on an event and expect to benefit.

"The double-edged sword to this whole trend is that too many companies get into the game without knowing everything that's involved," says Monica de Hellerman, president of Sport Summit, a New York City firm specializing in sports-business issues. "They end up spending more than they planned, or pulling out and leaving the main sponsor holding the bag. Sponsoring an event sounds great, so too few people ever consider the details."

Before a company gets involved in sports marketing, de Hellerman advises it to consider the following:

- **Insurance.** "Even a company getting involved on a small-time basis needs liability insurance," de Hellerman says. She recommends coverage of at least \$1 million.

- **Advertising And Public Relations.** Like Ukman, de Hellerman recommends that a company be prepared to spend several times the cost of the actual sponsorship to promote itself.

- **Logistics.** Do event organizers know enough about security? About crowd control? About seating? Will the

known as the Pannill Sweatshirt 500.

The sponsorship—which company ad executive Will Pannill says costs no more than a full-page ad in a national women's magazine—has brought the company media exposure and public recognition.

Likewise, the Castroville Artichoke People, a confederation of California shippers, decided this year to spend \$25,000 sponsoring the Big Sur Marathon. "The main purpose is to raise consumer awareness," says Pat Hopper, the group's president. "And we think it works. Of course, there may be more efficient ways of raising awareness with \$25,000, but we consider ourselves part of the community. And this is our contribution."

But as more companies turn to sports marketing, there is growing fear that it may lose its effectiveness. "I fear we are reaching a point where clutter becomes a major problem," says RJR Nabisco's Walker. "As this area gains popularity, it becomes harder and harder—and more and more of an investment—to gain recognition through sponsorships."

That is why some firms are seeking new ways to draw attention. The latest method is really a new twist on an old idea, a throwback to the days when a Brooklyn Dodger home run was broadcast as an "Old Goldie," after Old Gold cigarettes. In those days, if a batted ball hit a clothing manufacturer's sign at the Dodgers' Ebbets Field, that company gave the batter a suit.

And smaller communities in particular have long had baseball, football, bowling, and other teams sponsored by local companies.

One major difference is the much larger audience that sports marketing reaches today. For example, the Tasty Baking Co. of Philadelphia holds the rights to work a commercial into the flow of the National Hockey League Philadelphia Flyers' broadcasts. When a Flyer scores a goal, the club's broadcaster proclaims it a "score for a case of Tastykake." As part of the promotion, Tasty Baking donates a case of its products to charity for each Flyers goal.

**P**urists may be offended at the commercial intrusion into the flow of the game, but there is no disputing its effectiveness. "It has become part of the Flyers' tradition," says John Paul, president of Thomas J. Paul Inc., the advertising agency that designed the campaign. "When I watch kids playing street hockey, they celebrate their goals by saying they scored for a case of Tastykake. An advertiser can't ask for much more than that." **MB**



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event draw the desired crowd in terms of size and demographics?

- **Financial realities.** "If I were going to sponsor an event," says de Hellerman, "I would want to see the financial history of the people putting things together. I would ask how much is it going to cost? How much can they cover? Do they have other contacts? Will my sponsorship make a difference? Is this event really going to come off? I know that sounds stupid, but too many people never ask that question. Those are the ones who get burned."

For those who do plan carefully, the rewards can be considerable—not just in terms of public exposure but also in terms of goodwill.

Two years ago, the Pannill Knitting Co. of Martinsville, Tenn., signed a three-year deal to become title sponsor of what was then the NASCAR circuit's Martinsville 500 race. Today, it is



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## TAXES

# Surviving A Tax Audit

By Mark Stevens.

*Savvy moves to help you cut through the red tape and defuse the time bomb of an IRS examination.*

**Y**ou thought tax season was over. But suddenly you get it: the letter you've always dreaded. The one that says the government is going to review your tax return.

Partnerships and sole proprietorships are audited at a far higher rate than corporations, so small businesses stand a strong chance of finding such a letter in the mailbox. One thing is certain: Whether your tax returns are on target or off by a mile, you'll be caught up in the red tape of the federal bureaucracy.

But don't panic. A series of savvy moves can help you cut through the red tape of an IRS examination while defusing the time bomb that a poorly handled audit can turn out to be.

- Assume the Internal Revenue Service notifies you that it wants to review a specific aspect of your tax return—say your 1986 interest income—and sets a date for an examination at an IRS office. Your objective here is to keep the audit from extending beyond the initial focus of review (in this case, your '86 interest income).

How can you accomplish that? The best bet is to stay away from the audit and have a CPA represent you before the examiners. Accountants are experienced in the review process, so they're in the best position to keep the investigation confined to a narrow scope.

In some cases, it's possible to avoid this type of audit entirely. You do it by requesting a change of venue. Here is how it works: Assume the audit is scheduled for an IRS office in the town in which you live. If you have a valid business reason for requesting a relocation of the audit to another city (perhaps where your company is based or your papers are kept), it's possible that the case will be dropped.

"A return that may be targeted for audit in a small IRS office may not be considered a priority matter in a larger one," says Sheldon Gannis, a partner specializing in IRS matters for the national accounting firm of Spicer & Oppenheim. "For this reason, it's possible that a case shifted to this larger jurisdiction may fall through the cracks."

- The IRS informs you that it plans

to conduct a "field audit," dispatching an agent to your home or place of business. Generally, this is a wider-ranging examination conducted by a more sophisticated auditor. Again, the best bet is to shoot for a change of the audit location, in this case from your home or office to the accountant's office.

"Fail to make this change of locale, and you may find the agent conducting the audit at your kitchen table," Gannis says. "Once he's in your home, the agent may snoop around, taking note of your furnishings, art work, antiques, personal papers—all of which can get him thinking and wondering and ex-

*Fail to respond promptly, and the bureaucracy really kicks into high gear, igniting a process that you may find yourself unable to halt.*

panding the scope of the audit. Although the IRS can insist on conducting the review at your home or office, a request to hold the audit at your accountant's office will usually be honored."

- On the surface, a "mail audit" seems to be the least intimidating type of examination. Typically, the IRS sends you a letter saying there's a discrepancy in your tax return—perhaps you reported \$4,000 in interest income, and the IRS has documents submitted by the banks indicating you got \$4,500. The letter asks you to pay additional tax or to forward evidence to support the \$4,000 figure.

No matter who you think is right, the key is to respond promptly. Although the IRS may give you 30 days to reply, don't push the deadline. Make every effort to respond within 10 days to two weeks. You'll want to demonstrate that you are cooperating with the IRS and are not ignoring the letter.

Fail to respond promptly, and the bureaucracy really kicks into high gear, igniting a process that you may find yourself unable to halt.

- If you've heard the horror stories about how your first audit can open a Pandora's box, leading to an annual review by an IRS agent, you'll be pleased to know of an obscure rule that can save you from perpetual harassment by the IRS. Called the "repetitive-audit procedure," this enables you to win cancellation of an audit if a similar examination in any of the two previous years failed to produce additional taxes due and if the amount of the deduction claimed currently has not changed substantially since the last review.

Assume the IRS sends notice that it intends to audit your 1986 business-travel deductions. If this part of your return was previously audited for 1984 or 1985—and neither examination resulted in taxes due—in most cases the IRS will honor a request that the 1986 audit be canceled under the repetitive-audit appeal procedure.

- Sometimes it seems you just can't win. That's the case when you do everything right—you pay your taxes on time, you answer mail audits promptly—and still the IRS reaches out for you, making threats, putting liens on your assets, warning of dire consequences if you don't comply with the law. "The bureaucracy is so big that sometimes it doesn't know that you are in fact complying with the law," Gannis says. "For example, when one of my clients was accused of underpaying his quarterly estimated taxes, we knew that the IRS had simply failed to credit an overpayment that he had made in a previous quarter. While we were trying to straighten this out at an IRS office, the computer kept generating threat letters."

Fortunately, there's a way to end this bureaucratic nightmare. You do it by contacting the IRS's problem-resolution office, a little-known arm of the tax agency that is empowered to freeze actions against you while you present your case to the appropriate officials.

To avail yourself of this service, call the IRS taxpayer-information number listed in your telephone directory, and ask to be transferred to a problem-resolution officer. ■

Mark Stevens is a nationally syndicated writer specializing in small business.





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## COMPETITIVENESS

# It Pays To Go The Extra Meter

By Lorna Williams



**F**or Ronald Stange, president of Tools for Bending, in Denver, the very idea of adopting the metric system 13 years ago was "a royal pain in the neck." But once he and his staff solved what he calls "the mystery of metric" by actually working in then-unfamiliar centimeters and millimeters, they found the metric system easy to use. "Now my engineers all prefer it," Stange says.

The production of metric-sized metal-bending tools has enabled his company to crack markets in Europe, Japan, Australia, and India, where metric is the standard system of weights and measures. Since 1976, the company's exports have increased as much as 30 percent a year, and the number of employees has doubled to 70.

Stange became interested in selling overseas after a discussion with Carl Jacobsen, then a trade specialist in the Denver office of the U.S. Department of Commerce and now deputy director of Commerce's office in Hartford, Conn. Jacobsen stressed to Stange the benefits of developing a secondary market to protect his company during domestic recessions. "In fact, that's exactly what happened during the recession of 1979-81, when our foreign markets kept us going," Stange says.

Stange is one of many small-business owners in the U.S. who have discovered the economic benefits of going the extra meter to attract foreign customers. And the trend toward a metric marketplace is growing steadily. By the end of 1992, the 12 countries of the European Community (EC) are to become a single market accepting only metrically labeled imports.

Also by the end of 1992, federal agencies will have to use the metric system in procurement, as required by the Omnibus Trade and Competitiveness Act of 1988. This means the government will require metric weights and measures for about \$380 billion worth of purchases annually, "except to the extent that such use is impractical," according to the law. (See the box on the facing page.)

The metric system, formally called the International System of Units, or

SI, was developed by the French in the 18th century. Today, it is used in nearly every country. Only the U.S., Burma, and Liberia still use the English-based system of weights and measures, known as the customary, or inch-pound, system.

In 1975, with the passage of the Metric Conversion Act, it appeared that the U.S. was ready to go metric. But the law made the change voluntary and imposed no deadlines for metrication, and interest in conversion soon waned. Some large corporations, including General Motors, adopted metrication. Most small businesses held back, however, saying conversion was too expensive and too much trouble.

These attitudes are slowly changing, though, as many enterprising businesses realize that exporting requires a metric product. The Perfect Measuring Tape Co. of Toledo, Ohio, a family business with seven employees, made that discovery when Canada adopted metric standards in 1977. Perfect Measuring Tape had to convert if it wanted to continue selling its disposable paper measuring tapes to Canada's textile companies. (The tapes are attached to goods such as rolls of carpet or cloth and are discarded after use—such as determining where to cut the roll for a piece of a certain size.) The company converted one machine to supply its Canadian customers, says Andrew C. Bohnengel, the firm's president. "Once we did that, we found a whole metric world out there." Perfect Measuring Tape today ships 28 percent of its measuring tapes abroad.

The lumber industry, too, is changing to metric—if slowly. American hardwoods are in great demand not only in the U.S. but also in other countries, and several companies are cultivating secondary markets overseas in case of domestic sales slumps. Such firms find they have a sales edge if their exports are in cubic meters rather than the "board feet" measurements commonly used in the U.S. Lumberyards in some states are exporting to the Far East and Europe, and they tailor their products to foreign market preferences.

One such company is Mongold Lumber in Elkins, W.Va., which still ships lumber in board feet for domestic sales but uses cubic meters when filling overseas orders. It also makes custom cuts

of lumber in metric measures. The company's chairman, Max Armentrout, found that it was not difficult to convert to metric measure. Because of his engineering background, he was familiar with SI. "Many people who resist it don't realize that metric measurement is easier to use than the English system," he says. "It's more precise, and you don't have to deal with fractions."

The automotive, farm-machinery, liquor, and soft-drink industries are among those that have readily adopted metric measures. Others, including the commercial-aircraft, oil, and construction industries, still use traditional inch-pound standards, but they make metric concessions to comply with overseas regulations or satisfy customers.

Rexworks, in Milwaukee, makes construction machinery and concrete-mixing equipment in customary units for

## Convenient Conversions

Metric purists say that working in the metric system is most efficient when you don't switch back and forth between metric measures, or the International System of Units, and the customary system, or inch-pound system, commonly used now only in the U.S., Burma, and Liberia.

But for those whose knowledge of the metric system is zero, it's useful to know some equivalents for frequently used units.

A kilogram is 2.2 pounds.

Half a kilogram is just over a pound.

A metric ton is just over 2,200 pounds, or somewhat heavier than the 2,000 pounds in a ton in the customary system.

A liter is just over a liquid quart.

A four-liter container is just over a gallon.

A centimeter is 0.4 inches, or just under half an inch.

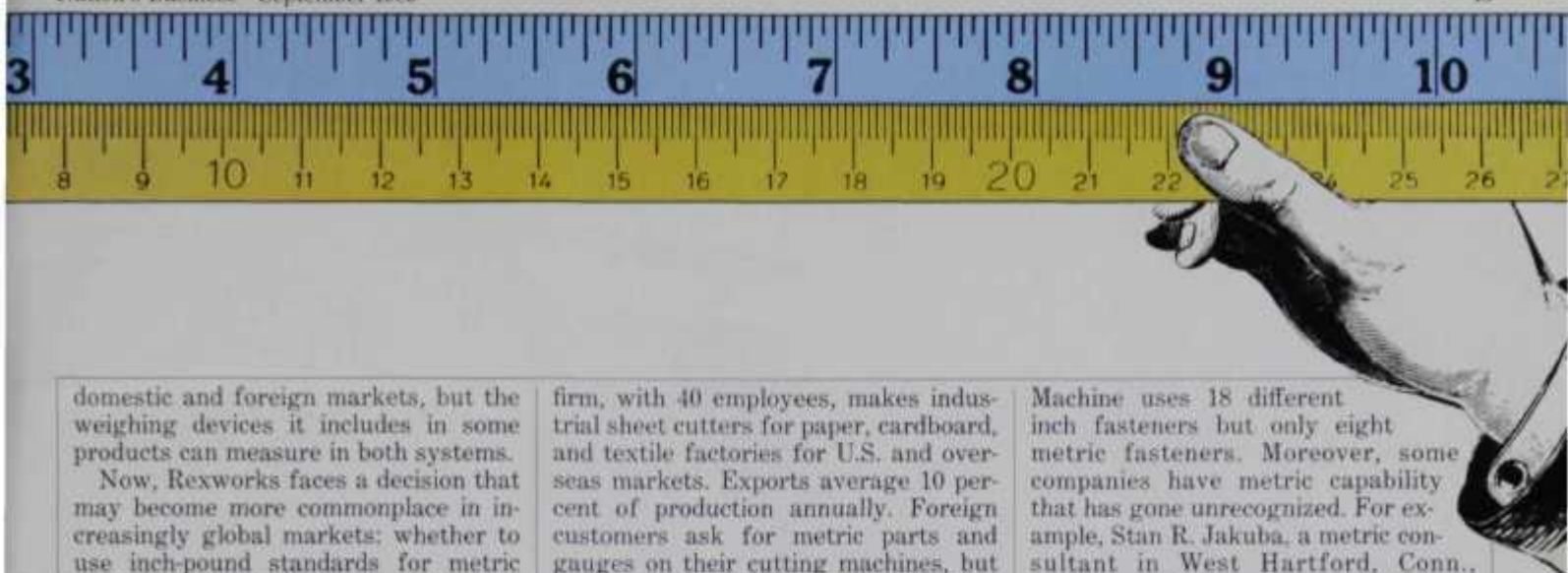
A meter is just over a yard.

A kilometer is just a little more than 0.6 of a mile.

When you've traveled a mile, you've gone 1.6 kilometers.

*Lorna Williams is a free-lance writer in Washington, D.C.*





domestic and foreign markets, but the weighing devices it includes in some products can measure in both systems.

Now, Rexworks faces a decision that may become more commonplace in increasingly global markets: whether to use inch-pound standards for metric products being introduced in the U.S. The company designed and built overseas an all-metric machine used in surfacing rural roads. For U.S. sales, at least its hydraulic components must be converted to customary measurements, says Dick Carone, vice president of Rexworks' international division, "because only inch-pound hydraulic pumps and motors are available in the U.S. But we're doing an analysis to decide whether to build the rest of the machine in SI or inch-pound."

Even suppliers to the staunchly inch-pound oil industry must do some things in metric when selling abroad. The Tom Wheatley Valve Co. in Houston, which supplies valves to oil companies, exports about one-third of its annual production even though only 1 percent of it is metric. But Wheatley Valve documents overseas shipments in SI, and its test reports give measurements in both customary and metric units to meet countries' regulatory requirements.

"The secret of America's success in the international market lies in giving the customer what he wants," says Lew Babbidge, vice president and general manager of Wheatley Valve. "For a Japanese client, we supplied valves in English measurements with metric flanges to meet a Japanese standard. If the customer wants metric, he gets metric."

**C**arl E. Beck, president of the Charles Beck Machine Corp., in King of Prussia, Pa., and chairman of the American National Metric Council, a trade association, says government support for metrication is welcome. The trade law's metric provision may encourage small firms to start making metric parts, he says, which would break the cycle of companies not designing products with metric parts because none are available and suppliers not making metric parts because there is no demand.

Beck sees the effects of that cycle in his own company's operations. His


firm, with 40 employees, makes industrial sheet cutters for paper, cardboard, and textile factories for U.S. and overseas markets. Exports average 10 percent of production annually. Foreign customers ask for metric parts and gauges on their cutting machines, but because so few are made in the U.S., Beck must buy expensive metric air-pressure gauges from Switzerland.

The cost of replacing tools and equipment is a concern of any company considering metric production, but often this expense is less than feared. At Tools for Bending, the company paid for metric micrometers and gauges, and thus the staff machinists did not have to buy these tools for themselves. Stange says the cost of converting part of his business to SI was not significant.

Companies usually find that the metric system requires fewer tools. Beck

Machine uses 18 different inch fasteners but only eight metric fasteners. Moreover, some companies have metric capability that has gone unrecognized. For example, Stan R. Jakuba, a metric consultant in West Hartford, Conn., worked with a company that had 40 machines on the shop floor and found that about half of them had metric thread-cutting ability—which was known to the machines' operators but not to supervisors.

Jakuba also deals with another type of measurement—his own system for measuring the public's attitude toward the metric system. Acceptance must be spreading, he says, because "I don't get hate mail any more." ■

 To order reprints of this article, see page 80.

## More On Metric

By Robert W. Shoemaker

Increased sales opportunities await U.S. business people who take advantage of the metric provisions in the Omnibus Trade and Competitiveness Act of 1988.

The law designates the metric system as "the preferred system . . . for United States trade and commerce," and it requires federal agencies to begin using it by October 1992 in "procurements, grants, and other business-related activities." An agency would be exempt from using the metric system, however, if it would cause "significant inefficiencies," make U.S. firms lose markets, or be impractical.

Companies won't be going metric alone or unaided. The trade law specifies that the federal government "has a responsibility to develop procedures and techniques to assist industry, especially small business, as it voluntarily converts to metric."

The Department of Defense's Metric

*Robert W. Shoemaker is professor emeritus of history at North Central College, Naperville, Ill.*

Transition Plan sets forth department-wide metric specifications and the conversion procedure, and it serves as a model for other government agencies in setting up conversion plans.

Metric specifications and transition timetables worked out jointly by government and industry will be distributed to the trade and professional press.

The American National Metric Council and the U.S. Metric Association will host the first national metric conference Oct. 2-3 in Washington. Topics include how federal agencies and government suppliers can coordinate the transition to SI and the metric education of current and future workers. For more information, contact the Council at the address below.

Following are sources of information on trading or manufacturing in metric:

- U.S. Department of Commerce, Office of Metric Programs, 14th St. & Constitution Ave., N.W., Washington, D.C. 20230; (202) 377-3036.
- European Communities Delegation, 2100 M Street, N.W., Washington, D.C. 20037; (202) 862-9500.
- American National Metric Council, 1010 Vermont Ave., N.W., Suite 1010, Washington, D.C. 20005; (202) 628-5757.
- U.S. Metric Association, 10245 Andasol Ave., Northridge, Calif. 91325.





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# Entrepreneurship

*Think the unthinkable: Selling your "baby" could have some distinct advantages.*

## TRANSITION

### Selling Your Firm May Hike Your Pay

By Mark Stevens

Are you paying for the privilege of working? Is running a business, even a profitable one, costing you money? No successful entrepreneur wants to think that, but there is occasionally some value in thinking the unthinkable.

If your calculations show that selling your company and investing the proceeds would bring you a return that exceeds your current salary and dividends, then you probably should at least entertain the possibility.

Assume, for example, that entrepreneur Smith pays himself \$125,000 a year for running his company. A tidy income, but could it be more? If Smith sold the firm for a profit of \$5.8 million, he would clear—after paying Uncle Sam a 33 percent tax on the gain—a lump sum of \$3,886,000. Because Smith is a conservative investor, he puts all the money into two-year certificates of deposit yielding 8.5 percent, for an annual return of \$330,310. By selling his business, Smith would more than double his income.

Put another way, holding on to the company is costing Smith over \$200,000 a year. Clearly, he is a prime candidate to sell. Yet he may not do so.

"All too often, entrepreneurs stay at the party too long," says David Hoods, a divisional president of California-based Geneva Corp., investment bankers for small and mid-sized companies. "They feel that by selling the business they built or founded, they'll be giving up something precious. True, but there's something else to consider. By failing to sell the business when it can fetch a good price, they may be missing out on an opportunity that won't soon repeat itself. If ever!"

How does this happen? Why do smart and sophisticated entrepreneurs let such opportunities slip by? "Because they get lulled into a state of dangerous complacency," Hoods says. "Typically, the entrepreneur says to himself, 'Hey, I'm doing great. For run-



PHOTO © DAVID PERLA

**Seeking safety:** Michael Metz says his family's metallurgical firm, in South Plainfield, N.J., was sold to protect the family's assets.

ning this business, I'm earning a hefty salary.' Hefty? Perhaps. But compared to what?" He cites an example of an entrepreneur who "could sell his electronics-distributing business for \$10.5 million, investing the after-tax proceeds for an annual income of \$595,000 [based on 8.5 percent]. Suddenly his \$300,000 salary doesn't look quite so hefty anymore."

Owners may choose to sell out for defensive reasons as well. After transforming Continental Custom Bridge Co., in Alexandria, Minn., from a shaky, five-person start-up into a \$10-million-a-year company with more than 100 employees, entrepreneur Bruce Pohlig decided to explore the market for his company.

"As a business builder who's been successful in achieving your objectives, you wonder when and if the bubble will burst," Pohlig says. "Because you nev-

er know the answer to that, and because you can suffer a reversal at any time, I decided it would be prudent to cash in some of my chips and to salt the money away. Although my company had been very successful to that point, I knew that businesses go down a lot faster than they go up."

"Amen," says Robert Huber, a partner with the accounting and consulting firm of Price Waterhouse. "Picking the perfect time to sell a business—that takes the kind of crystal ball few of us have," he says. "But if you fail to cash in when your company or industry is at its peak, you may find that the chance has passed you by for good."

To protect assets, Metz Metallurgical, in South Plainfield, N.J., was sold after more than 65 years of family ownership, says Michael Metz, the firm's executive vice president and chief operating officer. "Soon after the Union Carbide disaster in Bhopal, India, the insurance company that underwrote our air-pollution impairment coverage refused to renew our policy," Metz says. "It was an industry-wide problem. Companies like ours that work with chemicals in the manufacturing process couldn't get coverage. If our plants accidentally discharged pollutants into the environment, and we were sued for it, we'd be directly liable."


Considering the nationwide trend toward high jury awards, the risk of going it alone was too great for a small, privately held company. With this in mind, the Metz family sold out to Degussa Corp., a U.S. subsidiary of Degussa A.G., a \$7-billion-a-year West German company. "The insurance problem made us sensitive to the fact that virtually all of the family's assets were tied up in the business," Metz says. "In the environment of the mad 1980s, that was no longer prudent. Selling out enabled us to cash in on more than half a century of family ownership and to diversify our assets for safety and growth. It's proven to be the best of both worlds. We've gained liquidity and have stayed on to manage the business for Degussa."

But if you don't have a clear signal about what to do, how will you know if you're at a peak? One way, says Hoods, is to look at the market itself. Investors are walking around with a sizable cash

Mark Stevens is a syndicated business columnist in Chappaqua, N.Y.



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board these days, so a successful small business will probably bring a good price. "The lending sources are very aggressive and creative, and they are eager to provide the funds to make acquisitions," he says. "It is very much a seller's market today."

Is selling out right for you? Will you find it to be "the best of both worlds"? The answer depends largely on the company's value and on your ability to invest and live off the proceeds of a sale.

For help in assessing the value of your company, you will need to turn to accountants, valuation consultants, and

investment bankers. That's the first step in making the decision. You also will need to assess your own feelings about giving up your company; some entrepreneurs feel they lose their identity if they sell. The value of cash investments can fluctuate over time; after all, someone who wants to buy your company obviously feels the investment will pay off. If you think you can take it to new heights, you are not a candidate for cashing in.

But you may be, and it might be good to think the unthinkable while you have plenty of time to make a considered decision.

## PERSONAL DEVELOPMENT

### Strategic Planning For Yourself

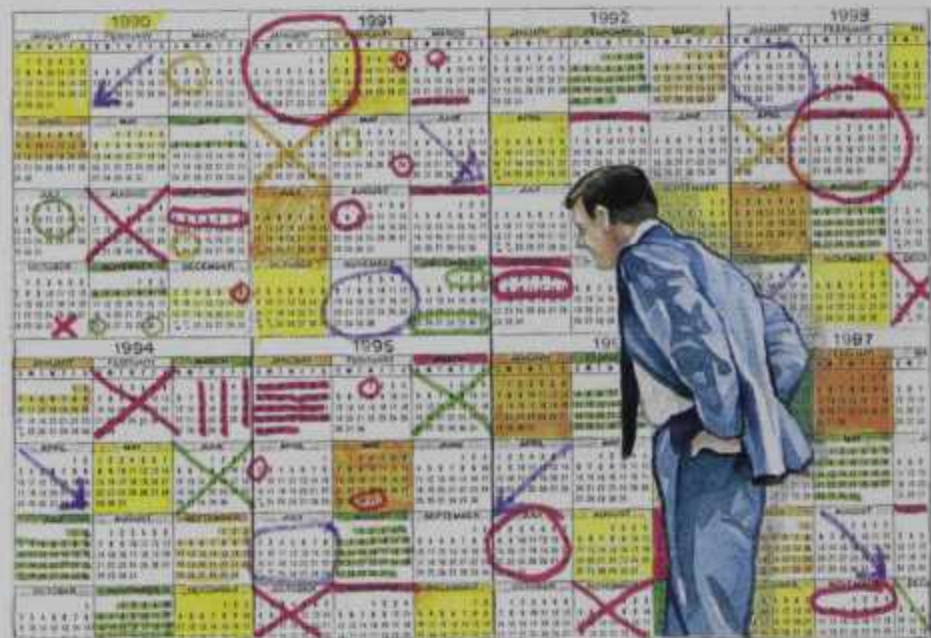


ILLUSTRATION: DOOR TILL

If you're an entrepreneur or want to become one, says entrepreneurship expert Jeffrey A. Timmons, you should assess your strengths and weaknesses and develop a "personal strategy."

This means making deliberate choices and having a long-term sense of direction rather than responding to opportunism and hunches. Timmons writes in *The Entrepreneurial Mind* (Brick House, 1989). Timmons is a professor of entrepreneurship with a joint appointment at Babson College and the Harvard Business School.

"Unthinking opportunism and impulse may end up shaping you in ways that you may not find so attractive 10 years hence," he writes. They may "also result in your failing to obtain just those experiences you need in order to have high-quality opportunities come your way later on."

To assess yourself, Timmons sug-

gests you think about such questions as: What activities give you the greatest amount of energy, satisfaction, and enjoyment? What is it about them that motivates you? What activities create the most anxiety or discontent? What do you think would be the ideal life 20 or 30 years from now? What 10 businesses would you most like to enter, and what 10 businesses would you least like?

As you analyze your answers, look for any themes or patterns that may emerge. You may discover, for example, the aspects of entrepreneurship that appeal to you the most—and those that you find the least attractive.

Your self-assessment will help you determine where you want to go and what action you should take to get there. Such a strategy, says Timmons, is "the personal equivalent of a business plan."

## MANAGING

### 88 Ways To Develop Executives

A common problem for owners of small companies is keeping managers challenged and growing professionally when there is no room for advancement.

A new publication from the Center for Creative Leadership may help you deal with that dilemma. Called "Eighty-eight Assignments for Development in Place: Enhancing the Developmental Challenge of Existing Jobs," it offers guidance on helping your managers take charge of their own development and learn the most from their present jobs.

Based on a five-year research project that looked at how executives learn, grow, and change, the report also provides ideas on how to give feedback to your managers on their ability to develop. Also included are tips for setting up a system for executive development.

Single copies are \$8, plus \$3 for postage and handling. For further information, contact the Center for Creative Leadership, 5000 Laurinda Drive, P.O. Box P-1, Greensboro, N.C. 27402-1660; (919) 288-7210.

## ROLE MODELS

### Mentors For Women

Women in small business—owners or employees—have until Oct. 31 to compete in the Clairol Mentor Program. The winner, to be named in January, will receive \$1,000 and be matched with a successful woman in small business who will serve as a mentor.

Winners will be selected in 10 other categories besides small business. Those categories are advertising, architecture, banking and finance, education, sales and marketing, fashion, health care/nursing, law, publishing, and retailing.

To enter, you must be at least 22 years old and a U.S. citizen, and you must type an essay of no more than 100 words describing what makes a good mentor relationship and how it could play a role in success.

Send the essay to The Clairol Mentor Program, c/o The National Women's Economic Alliance Foundation, 1440 New York Ave., N.W., Suite 300, Washington, D.C. 20005. State the category you are entering, and include your name, age, profession, and home and business addresses and telephone numbers. **B**





# Cyprus



**F**or thousands of years, the island of Cyprus, with its soothing climate and strategic Mediterranean location, has been a jewel cherished by empire builders. The Persians, Egyptians, Romans, Byzantines, Franks, Venetians, and Turks all conquered the island, and it was not until 1960 that Cypriots gained independence from the British, the last foreign rulers.

At that time, Cyprus was poor and underdeveloped; its economy was dominated by agriculture. The Cypriots and their new democratic government made economic development a priority, investing in infrastructure and setting up an institutional and regulatory framework that would attract and foster investment. Their success was remarkable.

From 1960 through 1973, the nation's gross domestic product grew at an annual average of 7 percent in real terms. The 1974 Turkish invasion temporarily disrupted that growth, but the Cypriots quickly rebounded with what many international economists termed an "economic miracle." Growth in GDP averaged 11 percent a year during 1975-80. It continued strongly during 1981-88—at an annual average





rate of 5.6 percent—while inflation was brought down to 3.4 percent. As a result, Cyprus now enjoys a high standard of living, a fast-growing export industry, and a thriving tourist trade.

Significantly, the island has become an increasingly important international business center, with more than 5,000 foreign investors participating in onshore industrial and other projects or managing their offshore affairs from the island. About 600 offshore companies maintain regional headquarters in Cyprus. Among them are 50 well-known multinationals such as Pepsi, National Cash Register, Linotype, Raychem, Reuters, Atlas Copco, Barber Green, Dresser, Intergraph, Johnson Wax, and Banque Nationale de Paris. To these companies, Cyprus is an excellent base of operations for doing business in Europe, Africa, and the Middle East.

Any visitor to Cyprus quickly understands why tourism has become an important industry, growing at about 20 percent a year. The island, with its mild Mediterranean climate, is a pearl with sweeping beaches and high, forested mountains. The island's long history, spanning thousands of years, is evident everywhere in the Hellenic temples, Roman villas, Byzantine monasteries, Venetian fortifications, and other relics of past civilizations.

Hotels, restaurants, taverns, pubs, discos, and nightclubs serve tourists at rea-



# Cyprus



sonable prices, making the island a vacation bargain. Regular airline service with 350 scheduled flights is provided by 28 airlines, led by Cyprus Airways, which flies to 19 major foreign cities, including London, Paris, and Munich.

But as the number of foreign companies on the island indicates, there is much more to the Cypriot economy than tourism. The government combined the island's many advantages with tax incentives and

a Customs Union Agreement with the European Community to attract foreign investment.

For example, manufacturing, much of it for export, has become one of the largest sectors of the economy in generating income and employment.

"Manufacturing is a very important sector, contributing about 15 percent to GDP and representing 70 percent of domestic exports," says a top-level spokesman for the republic's Ministry of Finance. "The sector is characterized by relatively small, family-owned, labor-intensive, but flexible units, concentrating on the production of consumer goods mainly in the fields of clothing, footwear, food processing, chemicals, and paper products," the Finance Ministry official continues.

**A**s the economy has grown and become more diverse, so has the island's economic stability, highlighted by low inflation, near-full employment, good labor relations, a current-account surplus, and fast-accruing foreign-exchange reserves now covering nine months of imports.

The nation's infrastructure—an area that has received close attention from the government since 1960—now compares favorably with advanced industrial countries. For example, Cyprus' automatic telecommunications service is ranked fourth-best in the world after those of the U.S., the United Kingdom, and Australia. With three satellite earth stations and three submarine cable systems, the island provides direct-dial service to more than 120 nations with 95 percent of the world's telephones. The remainder can be reached with the help of an operator. All modern telecommunications services, including facsimile, also are available.

The transportation infrastructure is similarly well-developed. Cyprus has two international airports in Larnaca and Paphos, 30 miles and 100 miles from the capital of Nicosia. Port facilities include two new multipurpose ports of Limassol and Larnaca, the new industrial port of Vassiliko, and three specialized oil terminals at Larnaca, Dhekelia, and Moni. Shippers are increasingly using the main ports of Limassol and Larnaca as regional warehouse and distributing centers.

The prime location of Cyprus is one reason the ports have become busy, with 100 shipping lines including the island in their regular schedules and more than 4,500 ships docking at island ports each year. Situated in the middle of the Mediterranean Sea, Cyprus traditionally has been an economic bridge linking Europe, the Middle East, and North Africa. It has been called a "European country at the threshold of the Middle East." Many foreign companies have found it an excellent base of operations for trading with the Arab world, and it is one of the very few meeting





places between Arabs and people from Israel.

**B**ut infrastructure, location, and a pleasant climate are not enough to explain Cyprus' stunning economic success and attraction to foreign, particularly Western, businesses. It is important that Cyprus operates much like other Western industrialized democracies with a government, judicial system, and accounting methods based on the British system and dedicated to the free-enterprise system.

The Cyprus Chamber of Commerce and Industry is the primary organization representing private initiative. It has as one of its main goals the safeguarding and strengthening of the institutions of the free-economy system—the system to which Cyprus' success in the economic field is primarily attributed.

Greek and Turkish are the official languages, but English is widely spoken, and almost all laws are officially translated into English.

The Central Bank of Cyprus is charged with fostering monetary stability and maintaining credit and balance-of-payments conditions that are conducive to orderly development of the island's economy. In this role, the bank sets exchange policy and reviews applications by foreigners either to conduct business in Cyprus or to set up businesses that will use Cyprus as a base to conduct business in other countries. In a large majority of cases, the bank approves direct investment by foreigners; it only turns down applications when the proposed business would cause disruptions for existing Cypriot businesses.

"Attracting foreign capital has always been one of the primary objectives of the country's development policy," says a senior Central Bank manager. "The Central Bank will approve a foreign-investment proposal provided it contributes toward the introduction of high technology, better management, and marketing methods as well as toward the improvement of export prospects for Cypriot products."

To encourage foreign investment, the government extends to foreigners the same tax and accounting incentives it offers local investors. These include:

- A 10-year tax holiday on all profits resulting from the manufacture of new products.
- Exemption from taxation of 6 percent of the foreign exchange imported into Cyprus from the export of locally manufactured goods.
- Significant initial investment and annual depreciation allowances and the carrying forward of book losses.
- Taxation of offshore companies that use Cyprus as a base of operations for conducting business elsewhere at one-tenth the normal company rates, or 4.25 percent of profits, and expatriate employ-



# Cyprus



ees at half the personal tax rate applicable to local employees.

Cyprus also has signed tax treaties for the avoidance of double taxation with 19 countries, including the U.S., Canada, West Germany, and France.

In addition, the government has established an Industrial Free Zone near Larnaca and its port and airport. Foreign companies setting up operations in the zone receive additional tax and customs

benefits. The government also has the option of granting these benefits to bonded factories in other areas of the island.

The Central Bank places some financing restrictions on foreign investors but freely grants permission to repatriate capital, profits, dividends, and interest from a foreign investment with no maximum percentage of profits that may be repatriated each year or minimum period for which foreigners must hold their investments.

Aside from the Central Bank of Cyprus, banking services are available from seven commercial banks with 300 branches and sub-branches across the island. Seventy insurance companies and insurance captives operate on the island.

Probably the biggest advantage Cyprus offers foreign investors is a Customs Union Agreement here with the European Economic Community, with the goal of a full customs union. "With this agreement, Cyprus has secured the most advanced form of economic relationship with the EC short of being a full member of the latter," says a high-ranking spokesman for the Ministry of Commerce and Industry. "Within the framework of this agreement, the EC has undertaken to dismantle all import duties on industrial goods of Cypriot origin and to abolish all quota restrictions on industrial goods exported from Cyprus."

In addition, the EC, after the end of the transitional period for the full Customs





Union, will decide on the abolition of the rules of origin governing its trade with Cyprus—a significant advantage to companies that want to use the island as a regional distribution center for Europe.

"By 1992, all custom formalities and artificial barriers to trade among European member states will be eliminated, thus creating a unified European market," says the Commerce Ministry spokesman. "This will inevitably lead to greater competitiveness of European products vis-à-vis imports from third countries."

The EC is Cyprus' most important trading partner, accounting for about 45 percent of all exports and 57 percent of all imports. Trade with Arab countries accounts for about 35 percent of its exports and 6 percent of imports.

Shipping is a natural extension of the Cypriot economy, and, through government incentives, this sector has grown to the point where the nation has the world's seventh-largest maritime fleet, with 2,000 ships sailing under its flag.

The tax benefits enjoyed by shipping companies include:

- No tax payable on profits from the operation of a Cypriot-registered vessel or on any dividend received from a ship-owning company.
- No income tax payable by officers or crew on their emoluments.
- No capital-gains tax payable on the



# Cyprus



sale or transfer of a Cypriot-registered vessel or the shares of a ship-owning company.

- No stamp duty payable on ship mortgage deeds or other security documents.

The emergence of the island as a major shipping center has helped attract many other types of companies that use the island as a distribution center, storing their goods in warehouses at Cypriot ports. The nation's association relationship with the

EC and potential for a customs union is even further incentive for foreign companies to set up distribution centers.

For all the business advantages Cyprus offers, the nation's "economic miracle" could not have happened except for the spirit and industriousness of the Cypriot people. The nation's 680,000 residents are motivated and well-educated, ranking among the world's top nations in terms of university-degree holders as a percentage of population. Cypriots who do not go to college abroad take advantage of a network of vocational schools whose main objective is to meet the growing demand of the tourism and manufacturing sectors for skilled workers.

Despite the low unemployment, the island has a ready pool of professionals, including lawyers, bankers, and accountants, to meet the needs of foreign business people. Another key labor benefit for foreign companies is the island's long history of peaceful labor relations. In 1986, for example, only 0.2 percent of total work days were lost to strikes, a rate that compares well with any industrialized country.

The Cypriot people help make the island a good place for foreign nationals to live and raise their children. The crime rate is low, with about one-sixth the number of crimes as the average European country. Health care is first-class, with general hospitals and private clinics across the nation, and the life expectancy of the population is 77 years for women and 73 years for men. A number of high-quality private schools exist throughout the country, catering to the needs of foreign-speaking students.

Another significant advantage to foreign business is the relatively low cost of setting up shop on the island. To rent good-quality office space in the capital of Nicosia is four times cheaper than London, five times cheaper than Copenhagen, and eight times cheaper than Tokyo. In terms of living costs, Cyprus ranked 40th among 52 business centers surveyed by the Union Bank of Switzerland last year. In terms of wage and salary levels, the country was 32nd.

**W**ith all the advantages Cyprus offers foreign companies and with the approaching economic unification of Europe, Cypriots recognize that their country has an opportunity to evolve into one of the world's great international business centers. "Our task ahead lies in the structural and technological upgrading of industry, particularly manufacturing, and in expanding our exportable services," says the Finance Ministry official. "The position of our country as a business gateway to the European as well as to the Arab markets will be enhanced, and foreign capital and businessmen are welcome to play an important role."







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**MILES AHEAD**



# Franchises Under The Hood

By Meg Whittemore

*From oil changes to transmission repairs, car-care needs mean franchise opportunities, sometimes with several clustered in one mall.*

**T**here are more than 150 million passenger cars and light trucks in this country, and 75 percent of their owners pump their own gas. "That's frightening," says Donald Midgley, president of the Car Care Council, "because it means owners are just filling the gas tank and not performing any routine maintenance on their cars."

Those tasks, commonly referred to as "checking under the hood," used to be taken care of at the local service station, but for the most part, those days are gone.

"Car mechanics today are highly specialized because they are working on technically sophisticated machines," says Midgley. "And car owners used to one-stop service are faced with having to find basic maintenance elsewhere."

The so-called service gap created an automotive aftermarket for franchising that, in 1987, numbered 39,293 franchises worldwide and claimed \$12.3 billion of car owners' dollars, according to the Department of Commerce. The department predicts a steady growth in auto-service franchises of about 11.5 percent annually through the next few years.

Specialization is the name of the auto-aftermarket game, says Jan Hartmann, president and chairman of Ziebart International, an automotive-rust-proofing franchise. "Consumers want specialists and reliability because they

recognize that the cars of today are complex," he says. "Franchisors prefer to specialize because it is difficult to train franchisees in a broad range of services."

Ziebart boasts 1,035 franchises in the U.S., Canada, and 35 other countries and has enjoyed a 70-percent increase in companywide sales since 1984. Hartmann says the growth is fueled by the high prices of new cars and the resulting willingness of people to spend more to protect their cars rather than replace them.

Some industry experts say the great American love affair with new cars is over and that the fancy auto has become another investment to protect. "People are keeping their cars an average of six to eight years," says Midgley, "longer than ever before." That translates into big business for franchises such as Precision Tune and Speedy (tune-ups and oil changes), Aamco Transmissions (transmission service), Tidy Car and Classic Shine (cleaning and detailing), Ziebart, Midas (mufflers), National Tire Wholesale and Goodyear Tire and Rubber Co., Maaco (paint and body work), and Novus (windshield repair).

Steve Harris decided to focus his entrepreneurial efforts on windshield repairs. In 1983, Harris purchased a Novus franchise in Greensboro, N.C., added two more franchises during the next three years, sold them all to his assistant, and then opened another Novus operation in northern Virginia last year. The cost to open the franchise is a relatively low \$10,000 (a Ziebart fran-

chise costs \$60,000 to \$80,000 to start).

Harris works out of his home and services his customers from a mobile van. "People don't have time to bring in their vehicles around here," he says, "so we knew from the start that we would have to go to them." Customer convenience, reliable service, and word-of-mouth reputation are the reasons Harris says he has an 8-percent monthly profit after expenses.

Harris repairs car and truck windshields that have cracks, breaks, scratches, and holes—some as big as a half dollar. Annually, \$2.4 billion is spent on auto-windshield replacement, but Harris says that of the 8 million windshields replaced every year, "up to 75 percent are repairable if caught in time." Compared with the average cost of \$200 for a windshield replacement, a Novus repair runs about \$40.

The price difference has attracted the attention of insurance companies; some now waive deductibles when a windshield is repaired rather than replaced. "When the procedure is properly completed, it can eliminate the need to replace the window," says Vic DiLiberti, manager of property-claims training for Nationwide Insurance, in Worthington, Ohio.

**V**alue for money and convenient service are the car owner's watchwords and the franchisor's key to survival. Some auto-service franchises have joined forces under one roof, creating a franchise specialty mall, or an auto-care mall. Under this concept, a customer can have a car's muffler fixed at one shop, go next door for a 10-minute lube and oil change, and purchase car mats at yet another shop on the same strip. Franchises such as Tidy Car, Precision Tune, Classic Shine Auto Fitness, Midas Muffler, and Goodyear Tires are beginning to cluster together to capitalize on their neighbors' traffic.

Personal transportation is far from a minor investment, and as the prices of new cars continue to escalate, owners increasingly will turn to auto services that offer them relief from the worries of high maintenance and costly, time-intensive repairs. Franchisors poised to meet those consumer needs can expect a continued strong market. **MB**

Meg Whittemore is a Washington freelance writer specializing in franchising and marketing.

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# What Will You Do When Your Personal Assets Are Seized to Satisfy A Judgment Against Your Corporation?

All your many tax benefits of owning a corporation could be wiped out overnight. How? The I.R.S. could visit you and claim you have not kept proper corporate minutes. You could lose the very tax benefits to which the law entitles you.

Here are some recent "horror stories" direct from actual court cases:

Joseph P. obtained a loan from his corporation without the proper loan documents and corporate minutes. As a result, the court required him to pay additional taxes of \$27,111.60. He narrowly escaped a penalty of \$13,555.80.

B.W.C., Inc. was forced to pay \$106,358.61 of accumulated earnings tax because its corporate minutes were incomplete. They expressed "no specific, definite, or feasible plans" to justify accumulating earnings, according to the court.

Keeping records has always been a bother, and an expensive one, especially for small companies. Most entrepreneurs do not like to spend time keeping records. Probably because no one ever became rich by keeping records. And in a small, one-person business, it seems downright silly to keep records of stockholder meetings and board of directors meetings . . . keeping minutes . . . taking votes . . . adopting resolutions . . . isn't it all just a waste of time?

Not if you ask any of the thousands of entrepreneurs who have lost fortunes because they failed to keep records. You should look at corporate record keeping chores this way: *It's part of the price you pay to get the tax benefits and personal protection from having a corporation.*

A corporation does not exist except on paper, through its charter, by-laws, stock certificates, resolutions, etc. Anything you do as an officer or director has to be duly authorized and evidenced by a resolution of the stockholders or the board, or by both in some cases. It makes no difference if there is only one stockholder or one million stockholders. The rules are basically the same.

You can hire a lawyer, like the big companies do, and pay \$100 or more just to prepare one form. But you may need, at minimum, a dozen or more documents to keep your corporation alive and functioning for just one year. This type of work is the bread and butter for many corporation lawyers. Most of the work can be done by their secretaries, yet they will charge you enormous sums because they know how important these forms are.

There is now a way for you to solve your

corporate recordkeeping problems. Without a lawyer, without paying big fees, and without spending a lot of time. Virtually all the forms you will ever need are already compiled in **The Complete Book of Corporate Forms** by Ted Nicholas. Nicholas also wrote the best-seller, *How To Form Your Own Corporation Without A Lawyer For Under \$50*. This book has become the largest single source of new corporations in America and has revolutionized the business of forming new corporations by making the process simple, easy and inexpensive.

But forming a corporation is only the first step toward building "the ultimate tax shelter." Through carelessness or neglect, many people are denied their rightful benefits from owning their own corporation. Ted Nicholas saw that many business owners needed more help *after* they incorporated.

And so, he prepared **The Complete Book of Corporate Forms**. Everything is simplified. Either you or your secretary can complete any form in minutes. All you do is fill in a few blanks and insert the completed form in your record book. When you own this book, you are granted permission to reproduce every form. If you are behind on keeping your corporate records, now you can catch up in no time. Just complete a few blanks for the things you've already done in the company. It's legal and it works. Best of all, the price is less than you would pay a lawyer for one hour of counseling.

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## SPECIAL REPORT

# There's A Computer In Your Future

By Jon Pepper

## PERSONAL COMPUTERS

**T**he conventional wisdom is that business buyers should choose software and then purchase hardware capable of running those programs. Today, however, it's probably OK to buy your computer first, since most computers can accommodate the popular business programs. The question is which machine you should buy.

You should pay attention to the type of microprocessor in the computer you are considering. The processor is the machine's brain, and it determines how much raw computing power you are buying.

If you are looking at a short-term investment, you can save a considerable amount of money right now by purchasing a machine with a processor based on the Intel 80286 chip—286 for short.

But if you plan to keep your system for two years or longer, it's wiser to buy a computer built around the 80386 (or 80386SX) microprocessor—called 386 machines. The 386 will be the business-computing standard for some time. A powerful computer capable of running several programs simultaneously, a 386 would be a cost-effective investment that would hold its value and run software developed for many years.

Following is a sampling of each type of machine on the market.

### 286 SYSTEMS

**Dell System 220** (Dell Computer Corp., 9505 Arboretum Blvd., Austin, Texas 78759; 1-800-426-5150). The Dell System 220 is one of the best values in a 286-based computer. Much faster than most 286 systems, the Dell also has a small case that won't hog valuable desktop space. A complete system, with a 40-megabyte (MB) hard drive and advanced video graphics array (VGA) graphics monitor, is \$2,299 and can be obtained only by mail order.

**Epson Equity III Plus** (Epson America Inc., Computer Products Group, 2780 Lomita Blvd., Torrance, Calif. 90505; 213/539-9140). If you need a well-made workhorse computer from a well-known maker, the Equity III Plus might do the trick. Retail prices for the Epson can be under \$2,000, and Epson generally

receives high marks for product support.

**Northgate 286/12** (Northgate Computer Systems, 13895 Industrial Park Boulevard, Suite 110, Plymouth, Minn. 55441; 1-800-548-1993). This mail-order company is rapidly developing a terrific reputation for high quality and efficient telephone support service. The 286/12 is the bottom of Northgate's line of 286 and 386 machines, but it's still a fast, powerful machine. It comes standard with 1MB of RAM (random-access memory), two high-density floppy-disk drives (one 5.25 inches; the other 3.5), a lightning-fast 68MB hard disk, a highly rated AT-style keyboard, a crisp and bright 14-inch monochrome monitor (amber or paper white) and DOS version 4.01. The price is \$2,199. A VGA color monitor, additional RAM, and larger hard-disks are available at reasonable prices. Several *Nation's Business* editors have Northgates at home—and love them.

**CompuAdd 286/16** (CompuAdd Corp., 12303 Technology Blvd., Austin, Texas 78727; 1-800-666-1872). Like Dell, and Northgate, CompuAdd is a mail-order company (it sells directly to the final purchaser) that offers quality PCs at low prices. You can buy a complete 286/16 system for around \$2,000. Many other 286 models are available, from a 10-megahertz (Mhz) system at \$1,249 to

a \$4,399, 20-Mhz system with a massive, 320MB hard disk—enough to store 160,000 pages of data. (Generally, the higher the Mhz processor speed, the faster the computer.)

### 386 SYSTEMS

**Tandy 5000MC** (Tandy Corp., 1700 One Tandy Center, Fort Worth, Texas 76102; 817/390-3700). Tandy was one of the first companies to offer a computer using MicroChannel "bus architecture." (Bus architecture refers to the design of a computer's bus—the machine's communications highway, which carries data back and forth between the central processor and hard- or floppy-disk drives, printers, and other peripheral devices.) Tandy's 5000MC is a well-made machine and a great value. With 2MB of RAM, a 70MB hard drive, and VGA graphics monitor, the 5000MC retails for \$7,498. If you think the MicroChannel architecture will be an advantage, this is an alternative way for you to buy in.

**IBM PS/2 Model 70-A21** (IBM Corp., 1-800-IBM-2468, Extension 140). The Model 70-A21 is the leader of IBM's PS/2 line. Although compact, it has plenty of built-in features, such as a fast, high-capacity hard-disk drive and built-in high-resolution graphics, plus power to spare from a high-speed 25Mhz processor. Although the Model 70-A21 isn't cheap—you can spend about \$10,000 on its charms—you have the security of buying IBM and a machine that will take you well into the '90s. IBM recently offered a powerful upgrade to the Model 70—a plug-in board featuring the next-generation Intel 486 microprocessor.

**AST Premium Workstation/386SX** (AST Research Inc., 2121 Alton Ave., Irvine, Calif. 92714; 714/863-1333). This AST computer is one of many based on the 386SX microprocessor. A slightly less powerful version of the full 386, the SX provides a way to buy into most of the features of the 386's capabilities at a lower price. The Model 43, which comes with a 40MB hard disk, a floppy-disk drive, and everything else you need to get going, lists for \$4,195. Other vendors' 386SX models are priced according to their features, with many mail-order versions under \$2,000.



Tandy's 5000MC offers MicroChannel architecture.



If you and your employees are not using one or more personal computers in your business, it's probably just a matter of time before you become part of the workstation generation. Most analysts predict that by the end of the century, almost every American office worker—and workers in many other job settings as well—will be using some kind of personal computer or terminal to improve productivity.

Technology is evolving at a dizzying pace as we head

toward the 21st century. Still, it is possible to invest now in a new computer that will meet your business's needs for years to come. And it is still possible to upgrade many older computers to nearly state-of-the-art levels for far less than the cost of a new system.

In this report, *Nation's Business* looks at some new hardware and software and some products that might rejuvenate your current equipment.

## MODEL SYSTEMS

If you shop for a PC at a major computer retailer such as **Business-Land, Computerland, Intelligent Electronics** (formerly Entre Computers), or a smaller yet reputable independent dealer, the salesperson—after asking what you intend to do with the computer—likely will suggest a system that can handle your current needs and provide room for growth. Following are three model systems for three very different types of business applications.

### GRAPHICS/DESKTOP PUBLISHING

**Mac Ilex** (Apple Computer Inc., 20525 Mariani Ave., Cupertino, Calif. 95015; 408/996-1010). If you plan to produce your own brochures or documents, or if your needs lean toward the graphic arts, then the Apple Macintosh is one of the best choices you can make. While you can configure a very good desktop-publishing system based on an IBM-compatible machine, it's tough to beat the Mac.

The latest, greatest Mac is the Ilex, which packs a lot of computer into a small space. For a little over \$8,000, you can get a system with a hefty 4MB of random-access memory, a large 80MB hard disk, and a high-quality color monitor and graphics card. You also might prefer Apple's full-page, monochrome portrait display for desktop publishing; it is a high-resolution monitor that shows an entire page of text or graphics in crisp black on white.

A host of good software is available for the Mac, and, of course, it works extremely well with any of Apple's LaserWriter laser printers to form a small print shop right on your desk.

### ACCOUNTING/GENERAL BUSINESS NEEDS

**NEC Powermate 386/20** (NEC Information Systems Inc., 1414 Massachusetts Ave., Boxborough, Mass. 01719; 508/264-8000). If you plan on trusting your business's accounting to a computer, you'll want reliability, power, and support when needed. You'll get all that and more from a system such as NEC's PowerMate 386/20. With a 20Mhz processor, the PowerMate has plenty of brawn, and all NEC computers are made well.

For accounting and general business use, we would configure the NEC with 2MB of RAM and a 155MB hard-disk

drive. This will provide more than enough room for your accounting information and plenty to spare for word processing, spreadsheets, and other general business applications.

Though the PowerMate lists for about \$10,000 in that configuration (with NEC's industry-leading Multi-Sync color monitor), it is possible to obtain discounts of 30 percent or more.

### STATE OF THE ART

**Compaq Deskpro 386/33** (Compaq Computer Corp., 20555 FM 149, Houston, Texas 77070; 713/370-0670). For years, Compaq has had a reputation as a leader in PC technology, and the 386/33 does nothing to dispel that notion. If the best of everything is what you want, then this might be the system for you.

This is about as powerful a PC as you can get. It has a super-high-speed processor (33Mhz), up to 1.2 gigabytes of disk storage (that's more than 600,000 pages of information), and superb graphics and expansion options.

With this machine, you can do anything from first-rate design and engineering applications to massive spreadsheets and desktop publishing. You name it, and the 386/33 can handle it. At over \$15,000 for a well-configured system, it's not cheap, but it will be quite a few years before anyone will judge this machine obsolete.



**NEC's PowerMate 386/20** provides reliability, power, and support.

## ENHANCEMENTS

Plenty of enticing new hardware is on the market, but that doesn't mean you have to junk your current PC. However, if your machine's performance is a bit sluggish, or you are out of storage space, or you can't run needed software, an upgrade might be in order. Here are a few ways to wring more life out of your current computer investment.

### ACCELERATOR CARDS

The quickest way to heat up your PC is to add an accelerator card—a plug-in board with a newer, more powerful microprocessor. This card makes the most sense if you have a first-generation PC or an XT-type computer. There are numerous cards on the market that can add 286 or 386 power to older machines.

Leading products include the **Intel Inboard 386/PC**, which is retail priced at around \$600. (Intel Personal Computer Enhancement Operation, 5200 N.E. Elam Young Parkway, Hillsboro, Ore. 97124; 1-800-538-3373.) Similar products include the **Microsoft Mach20** (Microsoft, 16011 N.E. 36th Way, Box 97017, Redmond, Wash. 98073; 206/882-8080) and the **Q/Corp. Quad 386XT** (Q/Corp., One Quad Way, Norcross, Ga. 30093; 404/564-5566).

### MASS STORAGE

If your computer lacks a hard-disk



## SPECIAL REPORT

drive, you are almost certainly feeling cramped for space. One of the easiest ways to remedy that situation is to plug in one of the several hard disks on a card. These are hard-disk drives built into plug-in expansion cards.

**HardCard 40** (Plus Development Corp., 1778 McCarthy Blvd., Milpitas, Calif. 95035; 1-800-826-8022). The HardCard is a reliable and inexpensive way to add hard-disk space, even if you are decidedly nontechnical. Simply plug the card into a free expansion slot, and you're ready to go. You can add a hard disk to a system that doesn't have one or to an old computer with only a 10MB disk.

**FlashCard 30** (Tandy Corp., 1700 One Tandy Center, Fort Worth, Texas 76102; 817/390-3700). The FlashCard is a 30MB drive and controller card that is retail priced at less than \$400. It also is available through Radio Shack Computer Centers.

## GRAPHICS

All it takes is a stroll past the window of your local computer store to find out how up-to-date your PC is. Retail windows are full of dazzling displays of computer-graphics software. Adding graphics to your PC can be as simple as plugging in a more powerful graphics card, though you need to make sure your present monitor is compatible.

The best bet in graphics cards right now is the video graphics array, or VGA card. Introduced by IBM with its PS/2 line in April 1987, VGA is now a powerful graphics standard. It is compatible with most new software and is a good choice for desktop presentation graphics or a graphical user interface like **Microsoft Windows**.

You can buy "no-name" VGA cards that may do the trick for as little as \$250, but the best will cost two to four times that much.

**Video Vega VGA Card** (Headland Technology Inc., 46335 Landing Parkway, Fremont, Calif. 94358; 415/656-7800). Video Seven makes a number of top-of-the-line VGA cards, with prices from about \$500 to \$1,000. They feature eye-popping color, easy installation, and compatibility with almost all major software packages.

## ODDS AND ENDS

No system is complete without accessories, and there are a number of items that can round out your PC purchase.

**Backup Power:** Few people give



Without software, fancy hardware is useless.

much thought to their power supply until they experience a blackout, brown-out, or some other power problem that causes them to lose data. One solution is an uninterruptible power supply. The

## PRINTERS

Working with your data on a PC is only half the battle. Your system needs some kind of output, and a printer is the overwhelming choice. Today, obtaining high-quality printing does not have to be expensive or complicated.

The most professional-looking documents come from laser printers, which also are fast and quiet. Dot-matrix printers are much less expensive, but they can't match the quality of lasers. However, if you need to print continuous-form checks, multipart forms, or other specialized papers, then a dot-matrix is a good choice. Any of the following printers should complement other components of your system well.

**LaserJet II** (Hewlett-Packard Corp., 974 E. Arques Ave., P.O. Box 486, Sunnyvale, Calif. 94086; 1-800-752-0900). The LaserJet is the most popular laser printer ever made. It produces superb-looking documents, is well supported by software, and can be purchased from discounters for under \$2,000. It is difficult to go wrong with a fine product like this. Fonts can be added via either software (sent from your computer to the memory in the laser printer) or via snap-in cartridges.

**Canon LBP-8 Mark III** (Canon U.S.A. Inc., One Canon Plaza, Lake Success, N.Y. 11042; 516/488-6700). The Mark III series is a new line from Canon, the company that provides the printer engine for the **Hewlett-Packard LaserJet** series. This new line features a powerful, 32-bit microprocessor, 1.5MB of memory, and many built-in fonts. List prices range from \$2,995 for

## MinuteMan On-Line UPS3

(Para Systems Inc., P.O. Box 815188, Dallas, Texas 75381; 1-800-238-7272) sells for \$2,249. That may sound like a lot, but what you get is a system that will switch over almost instantaneously and power your PC at least long enough to back up your important files safely.

**Tool Kit:** Adding expansion boards to your PC isn't difficult, but the job is a lot easier if you have the right tools. A computer tool kit is an inexpensive and worthwhile investment. Consider the **Curtis Manufacturing**

tool kits (Curtis Manufacturing, 30 Fitzgerald Drive, Jaffrey, N.H. 03452; 1-800-548-4900). The 11-piece model is priced at \$29.95, and the 52-piece kit costs \$79.95.

a dual-cassette model to \$4,495 for the Mark III R, which can print duplex (on both sides of a single page).

**Okidata Microline 172** (Okidata, 532 Fellowship Road, Mount Laurel, N.J. 08054; 609/235-2600). The Microline 172 is the latest nine-pin dot-matrix printer from Okidata, a specialist in low-cost, high-performance printers for the home/small-business market. The \$289 model prints 180 characters per second in the draft mode and 30 cps in nearly letter quality. If you don't need highly polished output, this is a good choice.

**Panasonic KX-P1124** (Panasonic Industrial Co., Panasonic Way, Secaucus, N.J. 07094; 1-800-PIC-8086). The KX-P1124 is the latest dot-matrix printer from Panasonic. It features 24-pin printing (the more pins, the higher the print quality, and 24 is the highest number of pins available), an easy-to-use touch panel, quiet operation, six built-in fonts, and a two-year warranty.

**NEC P5200** (NEC Information Systems Inc., 1414 Massachusetts Ave., Boxborough, Mass. 01719; 508/264-8000). This \$799-list-price printer has it all: color capability, plenty of paper-handling options, and speeds up to 265 characters a second. This is a rugged printer that is easy to use.

**Toshiba P321SLC** (Toshiba America, 9740 Irvine Blvd., Irvine, Calif. 92718; 714/380-3000). The P321SLC is another versatile 24-pin printer. It can be outfitted to print color graphics, is good for general correspondence, and will print envelopes, mailing labels, and single sheets with equal aplomb. You can find this printer discounted for under \$600.



## SOFTWARE

**N**o matter what kind of fancy hardware you have, you also must purchase software that can get the job done for you.

A few tips to consider when shopping for software:

**Choose a vendor carefully.** If your application is easy or if you are an expert, you can evaluate software yourself. Then you probably can save a great deal of money by buying at a cut-rate store, such as the **Egghead Discount Software** chain. However, since software is getting more powerful and because most people aren't experts, having access to support is important. This is especially true of products such as accounting software and high-end word processing.

**Consider whether you should upgrade.** Many vendors regularly upgrade their software and send notices to registered users. Should you upgrade? It depends. If you are happy with the way your software works, you probably need not bother. Still, if the vendor is offering a major upgrade, the additional features are probably worth the cost, time, and trouble.

**Plan for the future.** Buying a little bit more software than you need is a good idea. If you buy accounting software that can't handle more accounts than you currently have, you are in trouble if your business expands. The same holds true for database software. Remember, it is much easier to expand with a package you are familiar with than to junk your existing software and start over.

Some of the business software that you might consider now includes:

## ACCOUNTING

**Accpac BPI** (Computer Associates International Inc., 1240 McKay Drive, San Jose, Calif. 95131; 1-800-533-2070). Computer Associates offers what is probably the most extensive lineup of accounting software in the business. The firm has everything from low-end, easy-to-use packages to full-featured products that can run a business of almost any size. The Accpac line is under \$400 retail, but it still has plenty of powerful features and good support.

**Great Plains Accounting Series** (Great Plains Software, P.O. Box 9739, Fargo, N.D. 58108; 1-800-345-3276). This comprehensive system was designed with small-business needs in mind. It is sold as 12 modules, so you can buy only those your business requires. Prices for these popular and highly rated units vary; call Great Plains for prices.



**Mac IIcx:** a desktop publishing and graphics-arts workhorse.

## WORD PROCESSING

**WordPerfect 5.0** (WordPerfect Corp., 288 West Center St., Orem, Utah 84057; 801/225-5000). This is still far and away the most popular PC word processor. It is available for IBM and compatibles, Commodore Amiga, Apple Mac, and many other computers. The PC version is \$495, and it contains features that bridge the gap between word processing and desktop publishing. It's difficult to imagine any feature you will want that WordPerfect doesn't offer.

**Microsoft Word 5.0** (Microsoft Corp., 16011 NE 36th Way, P.O. Box 97017, Redmond, Wash. 98073; 1-800-426-9400). Word and WordPerfect have been playing leapfrog with features for some time now. This latest version of Word matches most of the features of WordPerfect, including the abilities to import data from other files, manipulate graphics, and preview printed output. The program costs \$450.

**Ami Professional** (Samna Corp., 8600 Glenridge Drive, Atlanta, Ga. 94609; 404/851-0007). This \$495 product is one of the few full-featured word processors that run under Microsoft Windows. It offers a complete graphical user interface. A lower-priced version, simply called Ami, is available for \$195, but it doesn't include a thesaurus and other high-end features.

## SPREADSHEETS

Spreadsheets are basic business applications and can handle anything from simple budgets to sophisticated projections for major corporations. Leading products include:

**Lotus 1-2-3, Release 3** (Lotus Development Corp., 55 Cambridge Parkway, Cambridge, Mass. 02142; 617/577-8500). This long-awaited upgrade of the most popular spreadsheet offers three-dimensional spreadsheets, snazzy graph-

ics, and improvements in almost every area. If you own 1-2-3 and have a machine with enough power to run it, upgrading to Release 3 is probably worth it. Price: \$495.

**SuperCalc 5** (Computer Associates International Inc., 1240 McKay Drive, San Jose, Calif. 95131; 1-800-533-2070). This also is a major upgrade of one of the most popular spreadsheet products. Major drawing cards are 3D views, excellent graphics, worksheet linking, and the ability to run well on less powerful computers. Price: \$495.

**Microsoft Excel** (Microsoft Corp., 16011 NE 36th Way, P.O. Box 97017, Redmond, Wash. 98073; 1-800-426-9400). Excel has been called the best spreadsheet ever, and it is certainly the leading what-you-see-is-what-you-get (WYSIWYG) spreadsheet. There are versions for the PC and the Mac. Excel uses the Windows graphical user interface on the PC (the Mac version runs under that proprietary operating system). Compatible with 1-2-3 files, Excel's WYSIWYG screen interface is the coming trend, many industry experts say. One drawback: You need a fairly hefty computer system to run Excel. Price: \$495.

**Slice** (LightningWord Corp., 1601 Civic Center Drive, Suite 206, Santa Clara, Calif. 95050; 408/241-1990). If you are a Lotus 1-2-3 or dBase user and your machine isn't powerful enough to run programs under a graphical user interface like **Microsoft Windows**, you should strongly consider picking up a RAM-resident utility named Slice. It will allow you to quickly and easily edit and import spreadsheet and database information into a word-processing file or another spreadsheet or database file. Slice consumes only 60K of memory and pops up on the screen with the touch of a hot key. **■**



# Twenty Guidelines For Leadership

By Perry M. Smith

**L**eaders count. People at the top can—should—make a difference. A leader can permanently affect an organization by establishing a strategic vision with specific long-term goals and implementation strategies. What will happen in the next 20 or 30 years will be, in large part, the consequence of decisions that influential leaders will make within their organizations.

There are 20 key fundamentals that form the basis for my approach to leadership.

**1. Trust is vital.** If you lead a large organization, it is essential that you be able to trust your subordinate leaders. This trust needs to be balanced with a willingness to remove people who cannot be trusted and to make some tough decisions. Without trust and mutual respect among leaders and subordinate leaders, a large organization will often suffer a combination of low performance and poor morale.

**2. A leader should be a good teacher and communicator.** Teachership and leadership go hand in glove. The leader must be willing to teach skills, to share insights and experiences, and to work very closely with people to help them mature and be creative. In order to be a good teacher, a leader has to be a good communicator and must be well organized and a goal-setter.

**3. A leader should rarely be a problem solver.** A leader should facilitate problem solving but should let subordinates solve most problems. The psychic reward that a subordinate gets from actually solving problems is quite important. It builds self-esteem and enhances the subordinate's ability to do still better in subsequent situations. By being the problem solver of last resort, the leader can help the organization grow and thrive.

**4. A leader must have stamina.** The demands of big leadership are very heavy, and no matter how well an executive may plan his or her schedule,

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How to Run a Large Organization Successfully

## TAKING CHARGE

Making The Right Choices



there will be times when the pressures and demands will be onerous. An intellectual and physical fitness program can help the executive be prepared for these difficult periods.

**5. A leader must manage time well and use it effectively.** One of the great faults of American executives is their general failure to discipline their schedules, their "in" boxes, their telephones, their travel schedules, and their meetings. Staying busy and working very long hours are not necessarily a measurement of leadership effectiveness.

**6. A leader must have technical competence.** Leaders must not only understand the major elements of [their] businesses but also must keep up with the changes. If the leader has a high level of technical competence, then he or she should be able to trust his or her intuition. This combination of competence and intuition can be an extremely powerful tool for a leader.

**7. Leaders must not condone incompetence.** Leaders must be willing to set standards, to abide by those standards unwaveringly, and to require their subordinates to live by those standards. Inhibitors to this task drain the organization and its capable leaders of the time, energy, and attention needed to accomplish the mission.

In such circumstances, leaders have a

responsibility to the organization to remove those who stand in the way of success. When it is necessary to remove people from key positions, leaders should meet with those individuals personally. The removal should be done with grace and style, and firmness. When you call individuals in to ask them to move on, you should be willing to do so—and not end the meeting unable to get to the point.

**8. Leaders must take care of their people.** They should recognize not just the top performers but also the many others who are doing their jobs well. Leaders should *never* ask subordinates to write their own personal evaluations or effectiveness reports; leaders should write those effectiveness reports or personal evaluations and make sure that these are done with care and style. Leaders should get up in the morning thanking people; at noontime they should thank more people; before going home at night, they should thank still more. Thanking people is an important part of taking care of them, because it's taking care of their psychological health. Leaders should mentor outstanding subordinates while avoiding the pitfalls of cronyism.

**9. Leaders must provide vision.** Leaders may run efficient and effective organizations, [but] they do not really serve the long-term interests of the institution unless they plan, set goals, and provide strategic vision. Those leaders who are not visionaries, and many are not, should ensure that they have frequent contact with people who have a talent and an inclination for long-range planning, visionary thinking, and innovation. The best leaders are agents for change, and one of the best ways to ensure that this change is accomplished systematically is through good long-range planning.

**10. Leaders must subordinate their ambitions and egos to the goals of the unit or the institution that they lead.** Often, leaders have to subvert their strong personal ambition in order to ensure that the development and maturation of their organizations and the movement towards higher standards of excellence and performance are accomplished in a careful and systematic way.

If leaders are too ambitious for the organization, or too ambitious for them-



*What does it take to be an effective leader? Integrity, trust, and a sense of humor are among the crucial qualities, says this internationally known expert on the subject.*

selves, they may drive the organization in dysfunctional directions. They may, in fact, become a part of the problem rather than a part of the solution.

**11. Leaders must know how to run meetings.** Much of a leader's time is spent in meetings. Leaders should know what kind of meetings they're attending; they should establish the ground rules for the meetings; they should be actively involved in the meetings to make sure they stay on track; they should give individuals ample opportunity to express their views and their disagreements. Finally, leaders should know how to wrap up meetings, to draw conclusions, to set up the time and agenda for the next meeting on the subject, and to direct individuals in the meeting to carry out certain tasks as a result of the decisions that have been made. Leaders also must discontinue meetings that are not serving an important purpose.

**12. A leader must be a motivator.** No leaders of large organizations can reach all their people on a regular basis, so they must count on subordinate leaders to provide much of the motivation. Commitment to mission, love of the job and the people, dedication to high standards, frequent reinforcement of the organization's plans and goals, strong incentive and reward programs, and lots of compliments for hard work and high performance are all parts of the vital motivation factor.

**13. Leaders must be visible and approachable.** In large organizations, the four-hour rule is a useful guide: Leaders should spend no more than four hours a day in their offices. The rest of the time, they should be out with their people. They should be talking to lower-level officials and getting their feedback on problem areas. They should be patting people on the back. They should be making short speeches. They should be handing out awards. They should be traveling widely throughout their organizations. They should be making contact with sister organizations and organizations at higher levels so they can ensure that important relationships are enhanced and problem areas identified early.

Another aspect of being approachable is getting involved in sports, hobbies, etc. Be benignly visible; be approach-

*Leaders should spend no more than four hours a day in their offices. The rest of the time, they should be out with their people. They should be talking to lower-level officials and getting their feedback on problem areas. They should be patting people on the back.*

LECTURER PERRY M. SMITH

ably visible. Some people are very visible but not approachable. One caution: A "just-one-of-the-guys" kind of person is normally not a good leader. A leader must be special while being approachable.

**14. Leaders should have a sense of humor.** [Leaders] should let people know that life is not so important that you can't sit back occasionally and be amused by what's happening. Humor can be a great reliever of tension. Be relaxed, be humorous with people, but don't use humor against people. Humor delivered with an acid tongue and aimed at subordinates can be very counterproductive. Off-color humor should be avoided, since it diminishes the dignity of the leader and the organization.

**15. Leaders must be decisive, but patiently decisive.** Leaders should listen to all sides before deciding. However, postponing the decision for many weeks or months is rarely the answer. A nondecision is itself a decision and should be recognized for what it is. Risk-taking is frequently an essential and healthy aspect of decision making.

Leaders also must understand how to implement decisions. They must ensure that decisions are not only carried out but carried out faithfully, in both substance and spirit.

**16. Leaders should be introspective.**

Leaders should be able to look at themselves objectively and analyze where they have made mistakes, where they've turned people off, and where they've headed down the wrong path. Introspection can be followed to a fault, however. Hamlets make poor leaders.

**17. Leaders should be reliable.** A leader should be careful about what commitments are made, but once those commitments are firm, nothing short of major health problems or a very serious crisis in business, institution, or family matters should alter them.

Reliability is something that leaders must have in order to provide stability and strength to organizations. Important aspects of reliability are persistence and consistency. Leaders must be willing to be flexible, but consistency and coherence are important elements of large organizations and deserve the support of top leaders.

**18. Leaders should be open-minded.**

The best leaders are the ones whose minds are never closed and who are eager to deal with new issues. Leaders shouldn't change their minds too frequently after a major decision has been made, but if they never reconsider, they are beginning to show a degree of rigidity and inflexibility that can spell trouble for the organization.

**19. Leaders should establish and maintain high standards of dignity.**

When standards of dignity are established and emphasized, everyone can take pride in both the accomplishments and the style of the operation. A happy combination of substance and style leads to high performance and morale.

**20. Leaders should exude integrity.**

Leaders should not only talk about integrity; they must also operate at a high level of integrity. Institutional integrity cannot lie dormant until a crisis occurs; integrity must be ingrained and must be supported by the leader and the organizational community. Of all the qualities a leader must have, integrity is the most important. **16**

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# Eliminating The Static

By Michael Barrier

*Bob Carver identified and corrected his mistakes; now he hopes to restore the luster to his audio-products company.*

**I**t's a sad and by now familiar story: An American company faces powerful Japanese competitors—and shoots itself in the foot.

But sometimes those companies pick themselves up, fix their mistakes, and come roaring back.

Robert W. Carver thinks his company, Carver Corp. of Lynwood, Wash., just north of Seattle, will be one of them. It's too early to say whether he's right—particularly considering that the Japanese now dominate Carver's industry, consumer audio products—but so far, the signs are promising. Carver has identified and corrected his mistakes, and he has a team in place that seems to be doing everything right.

Carver, 46, is used to being a winner. He founded Phase Linear, which made highly regarded amplifiers, in 1971; after selling out in 1977, he founded Carver Corp. in 1978. He enjoyed acclaim for many years as both a successful businessman and a technological innovator.

"Since 1971," Carver says, "I've been CEO of a company—first Phase Linear and then Carver—whose revenues grew 20 to 40 percent, year after year, and whose earnings grew 40 to 90 percent, year after year."

Last year, though, Carver Corp. showed a drop in sales, from almost \$25 million to \$20.5 million, and an operating loss of more than \$1.3 million—"a very humbling experience for me, both personally and professionally," Bob Carver says.

Carver Corp. makes products directed toward the upper reaches of the audio market. You will not find its receivers, amplifiers, and loudspeakers in the big electronics chain stores, but rather in locally owned stores that specialize in high-quality stereo gear. A Carver stereo receiver, say, may well cost two or three times as much as an apparently comparable Japanese component sold by a national chain.

Over the years, Carver products were able to command those higher prices from a growing number of buyers, for two reasons: As far as many experts were concerned, the Carver products really did sound better; and Bob Carver came up with labels for his innovations that made them seem as special as they were.



PHOTO © PHILIP AMOAL

*For Bob Carver, whose name on an audio component has stood for quality, his company's troubles have been "very humbling."*

When he introduced his first loudspeaker, in 1986, he didn't mince words: He named it The Amazing Loudspeaker.

Reviewers did not take issue with that label; Julian Hirsch, writing in *Stereo Review*, said of the loudspeaker, "Its overall sound is spectacular, its bass performance surpasses that of almost any other speaker one might name, its stereo imaging is outstanding

... and its price is ridiculously low for what it does and considering what comparable products cost."

Carver said his preamplifiers and receivers enhanced stereo sound with what he called "sonic holography"; his compact-disc players used what he called a "digital time lens" to soften the harshness of some digital recordings. In those cases, and in others, knowledgeable people could hear the improvements that Carver claimed his innovations produced. Carver may have sold the sizzle, but he also served the steak.

Even though Carver's products are costly by most standards, their prices



## LESSONS OF LEADERSHIP

fall well short of those for the most rarefied audio systems, which can cost as much as \$100,000. For years, Carver intrigued audio buffs (and infuriated some) by building amplifiers that mimicked the performance of extremely expensive competing machines, but cost only a fraction as much. "The high-end audio components have taken on a cult following," he says. "Often, the price is ridiculous for an audio component, but about right for a piece of sculpture."

**B**y 1985, Carver had a lot going for him—a glowing reputation, widely acclaimed products, a marketable American personality in a field otherwise dominated by Japanese competitors, a network of 460 strong dealers.

That year, he took his company public. Many small entrepreneurial companies find going public a wrenching, disruptive experience, but Carver did not: "Going public was fairly painless for us. It didn't divert us significantly." It was later that things started to go wrong.

"At the time we went public, and for about a year after that, the company's management team was home-grown, and we'd been very successful," Carver says.

"But one of the promises that I made to the investment-banking community was that immediately after going public, we would begin to develop in-depth management—which meant bringing in a few new people from the outside.

As to how well he performed that task, Carver says simply, "I blew it."

Although many entrepreneurs yield control reluctantly, Carver liked the idea of adding more managers. His office is just a few steps away from his company's engineering department, a place piled high with audio components in varying states of disassembly, and that is where he would rather be.

"I've never thought that Bob Carver was a great manager," he says. "I'm a physicist by training, and a circuit designer by profession, and an entrepreneur and manager only by special affinity and by happenstance. So I really thought that by bringing in very good, experienced, talented managers, my burdens would be eased and I could devote more of my time to research, and to developing products, which is what I like to do."

Instead, he says, "corporate expenses exploded, and productivity went down."

Eileen M. Rutledge, 31, a Carver employee since 1980 and chief operating officer since early this year, thinks the problem was that the new managers didn't understand how Carver Corp. worked.

Carver has always been a company that tried to cultivate a close relationship with the people who make its labor-intensive products.

The new managers, she says, wanted to move the company toward a more automated and impersonal operation, even though the plant's output—a few thousand units a month—makes Japa-



**Carver—seen here with Vic Richardson, his chief engineer—spends as much time as possible in the engineering department, which adjoins his office.**

nese-style automation impractical.

At Carver, she says, "the employees like the products"—listening to music all day is actually part of the work—and the company shows it likes its employees, by, for example, offering day care on the premises. "That atmosphere is a very good one," she says. "It helps you retain good employees. We have single parents who were previously on welfare who never could have afforded to work, because of the high cost of day care."

Unfortunately, she says, some of the new managers felt that because employees wanted to work at Carver, "somehow that made them less productive. But you can enjoy your job and still work as fast as you possibly can."

In the meantime, the company's strength in the marketplace was starting to ebb.

A year after the company went public, Carver says, "I personally stopped

doing the marketing effort, in terms of getting the reviews and dealing with the editorial people at the magazines. In our business, a good review means product success, and no review means that ultimately people forget about you. We always had a steady stream of reviews, and then they stopped, because I dropped the ball."

For years, Rutledge says, the company resisted introducing new models with merely cosmetic changes, because "we didn't need to do that; we had technology that no one else had. We still have that technology, but people are tired of seeing it in the same old box."

In other words, Carver wasn't introducing enough new products to keep customers interested—and as a result, its dealer base began to erode, until now Carver has only about 230 dealers, half as many as it had three years ago.

Last year, Carver named a new marketing director, Mark R. Friedman, hiring him away from the American branch of a Japanese audio company. "I did some homework with some dealers I knew," Friedman says, "and the same word came back every time"—the product line was stale, the company didn't know where it was going, and it wasn't communicating with its dealers. "The dealers felt that I had the strengths to change those things, and if I changed them, the potential at Carver was incredible."

**T**hanks to Friedman, Carver now communicates constantly with its dealers—present and potential—telling them what it's doing and asking for their ideas. The company has even changed the color of its components, from a relatively light gray to a darker shade, in keeping with dealers' comments.

In years past, Carver did not offer a full line of components, restricting itself to those where it had a clear technological edge. "We found out that the dealers wanted us to broaden our offerings," Friedman says. As a result, "in January we'll ship our first tape decks," followed in February by Carver's first compact-disc changers. Carver is also modifying existing products, making both cosmetic and internal changes. By the time the line is completely revamped, the company will have introduced more than 20 products that are in some sense new.

Bob Carver has reconciled himself to the changes in his company's marketing philosophy: "I used to believe that a new product had to have something special. That's been the key to my success, and my company's success. But I've learned—and Mark Friedman basically taught me this—that a product can have a new faceplate, or it can be



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## LESSONS OF LEADERSHIP

new in name only, and the marketplace will often see it as something tremendously new."

Some of the new products—the tape decks, for example—will be manufactured in Japan; Carver has made part of its line there for years. But many of the new products are being assembled by the 130 people working on the plant floor just outside Eileen Rutledge's office.

And to win back its dealers, Carver not only must offer appealing new products but also must get them from that plant floor to the stores when it says it will.

To meet that challenge, Carver has not automated, but instead it has found other ways to improve productivity. "The material flows were inefficient," Rutledge says. "Now it's a very logical flow." Before, workers had to pick up and put down one unit 22 times; now they pick it up once, "and that's when they bag it. That improves quality."

**O**n a management level, Carver has smoothed the path from the engineering department to the plant floor by making a new-products manager the bridge between the two.

*"I'm a physicist by training, and a circuit designer by profession, and an entrepreneur and manager only by special affinity and by happenstance. . . . I really thought that by bringing in very good, experienced, talented managers, my burdens would be eased."*

That way, Rutledge says, "instead of engineering chucking something over the wall and manufacturing standing there with arms spread to catch it," the bugs in a new product can be worked out before it goes into full-scale production.

As a result of such changes, she says, production has been increasing 35 percent a month this year, even with all the new products.

"From time to time," Rutledge says, "Carver's been lopsided. Right now, we feel we've got a stool with three legs on it."

Carver Corp.'s comeback may be well under way by this fall—much depends on how many dealers rejoin the fold, and Friedman won't have a clear reading on that until October. But the company has the resources to ride out the storm even if full recovery takes a while.

Bob Carver originally planned to spend the proceeds of the 1985 public offering on developing and marketing an advanced television monitor/receiver, but the rising interest in—and confusion over—high-definition TV persuaded him to pull back from that project. As a result, Carver Corp. has plenty of cash and very little debt.

In addition to its consumer electronics, Carver also makes professional amplifiers, the kind used by touring musicians, and sales of those products have remained strong even while consumer-product sales have faltered.

However bright the long-term prospects, Bob Carver is clearly impatient to break into clear weather again as quickly as possible. He speaks of the critical days ahead with the grimness and determination that hard times and 80-hour workweeks can generate.

"We'll be back in the saddle again by the fall. We'd better be." ■

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# A New Era In Trade

*Under the U.S.-Canadian free-trade pact, smaller firms stand to gain the most.*

*By Albert G. Holzinger*

**N**ot many U.S. families are as savvy about exporting to Canada as the Fitzpatricks of Elliptown, N.Y.

Since the turn of the century, four generations of Fitzpatricks have shipped wood products from their mill about 50 miles south of Niagara Falls to customers across the border. The family firm has exported everything from the wooden lasts formerly used in shoe-making, to rough-cut hardwood lumber, to ready-to-assemble furniture.

Now, under the U.S.-Canada Free-Trade Agreement, there's reason to be excited about the firm's future, says Gerard "Jess" Fitzpatrick. It has taken "a very sharp pencil" to stay price-competitive in Canada over the years, explains the firm's president, because import duties on products from Fitzpatrick & Weller Inc. have been as high as 15 percent. Under the free-trade agreement, the duties are being phased out over five years. Tariff savings will allow Fitzpatrick to reduce prices to increase market share, or maintain prices to increase profits, or implement a combination of the two strategies.

Making trade and investment across the world's longest undefended border more profitable, less cumbersome, and more secure for U.S. and Canadian businesses is what the free-trade agreement is all about.

Even before the pact took effect Jan. 1, the U.S. and Canada had the world's largest and coziest commercial relationship. Two-way trade totaled about \$165 billion in 1988, according to the U.S. Department of Commerce. About 25 percent of U.S. exports were to Canada last year, and a whopping 75 percent of Canadian exports were to the U.S.

And the governments of both nations hope the agreement will tie their economies still tighter. If U.S. and Canadian trade officials have their way, increases in the cross-border flow of goods, services, and capital stimulated by the business climate established under the



PHOTO: MICKY OSTERWEINER—BLACK STAR

**Jess Fitzpatrick's company gained export expertise by shipping its wood and wood products to Canada.**

pact will serve to create a single \$5-trillion economy.

Because the combination of the U.S. and the Canadian economies is much bigger than Japan's and somewhat larger than the 12-member European Community's, trade officials also hope the agreement will be a deterrent to any protectionists in Tokyo and in Brussels, where EC officials are writing rules to govern access to what will be their combined market after 1992.

The U.S. economy is 10 times larger than Canada's, so U.S. managers enter the free-trade partnership well versed in the complexities of large-scale production, while their Canadian counterparts have experience squeezing profits

from low-volume manufacturing. Large corporations selling in both markets are restructuring their manufacturing and distribution processes to take advantage of this American and Canadian managerial expertise. For example, Gillette Canada has announced it is closing two factories in the province of Ontario. Now that shipping goods across the border is almost no trouble for experienced exporters, the firm will supply the Canadian market with products manufactured by its much larger parent company in the U.S. Conversely, Du Pont Canada will aggressively pursue markets in the U.S. for specialty products made in Canada, including a new line of plastic frozen-food containers that can be used in conventional as well as microwave ovens.

As beneficial as tariff, customs and immigration, and services and energy trade provisions of the pact could be for large companies, smaller firms stand to gain the most from the new trade agreement.

"There is no doubt in my mind that Canada now presents an unprecedented opportunity to small and mid-sized companies that are new or almost new to exporting," says James E. McConnell, director of the Canada-U.S. Trade Center, an affiliate of the State University of New York at Buffalo. The center analyzes U.S. and Canadian trade and investment issues.

From the U.S. business perspective, the agreement clearly will be of greatest benefit to exporters whose manufactured goods were subject to Canadian tariffs, because Canadian duties were two to three times higher on average than U.S. tariffs.

Certainly, the tariff cuts mean big dollars to big corporations. Procter & Gamble Inc., for example, which makes some personal-hygiene products sold in the U.S. in a plant in Ontario, stands to save as much as \$50 million a year in tariffs.

For small firms, however, the cuts



## Where To Call, What To Read

Realizing that your small or mid-sized business can and should seek Canadian customers is one thing; making your first sale north of the border is another. If you have the motivation but still lack the information to do business in Canada, here are some experts to call and some books to read.

There are lots of sources of general information about the free-trade agreement and business opportunities it presents, but five stand out.

Three in the public sector are the Office of Canada, U.S. Department of Commerce, (202) 377-3101; the Office of International Trade, U.S. Small Business Administration, (202) 653-7794; and the Bureau of Economic and Business Affairs, U.S. Department of State, (202) 647-1718.

In the private sector, contact Fred Stokeld, executive secretary of the U.S. Chamber of Commerce's Canada-U.S. Relations Committee, (202) 463-5488; and James E. McConnell, director of the State University of New York at Buffalo's Canada-U.S. Trade Center, (716) 636-2299.

If you have a question or a problem concerning a specific aspect of doing business under the agreement, try calling one or more of these numbers:

**Bi-Lingual Labeling, Packaging Requirements:** Public Relations Service, Office de la Langue Française, (514) 873-6565; Consumer Products Branch, Consumer and Corporate Affairs Canada, (819) 997-1177.

**Business Travel, Work Permits:** Employment and Immigration Canada, (613) 992-5969; your local Canadian visa office. If there is no listing in your phone book, call the Commerce Department's Office of Canada.

**Canadian Government Procurement:** Supply and Services Canada, (613) 997-6363.

**Customs: Rules-Of-Origin, User Fees, General Procedures:** Billy Patterson, Office of Trade Operations, U.S. Customs Service, (202) 566-2345; Canadian Customs Excise Hotline, (800) 267-6626; Customs and Excise Section, Revenue Canada, (613) 954-6874. **Shipper's Export Declarations:** Office of Export Licensing, Department of Commerce, (202) 377-4811.

**Freight Forwarding, Customs Services:** David C. Buifam, International Trade Director, Service Corps of Retired Executives, (202) 653-6279.

**Investing in Canada: General Requirements:** Raymond Doucet, Investor Services Group, Investment Cana-



ILLUSTRATION: JEAN WISEBAUGH

da, (613) 996-7874; Pam Schattell, Embassy of Canada, (202) 684-7716. **Incentives For Investing In Slow-Growth Areas:** Federal Business Development Bank, (514) 283-5904; Business Center, Canada Department of Regional Industrial Expansion, (613) 995-5771.

**Product Standards:** Office of Standards Code and Information, National Institute of Standards and Technology, (301) 975-4040; Standards Information Service, Standards Council of Canada, (613) 957-1748.

**Services: General Provisions:** Jay Dowling, Office of Service Industries, Department of Commerce, (202) 377-3575. **Financial Services:** Brian McCartan, Canada Desk, Department of the Treasury, (202) 566-2747.

**Tariffs: Rates, Elimination Schedule:** Laura Gaughan, Office of Canada, Department of Commerce; Doug Cruickshank, Passports and Free Trade, Revenue Canada, (819) 954-6321. **For Phase-Out Accelerations:** Rick Ruzicka or Russ LaMantia, Canada Office, Office of the U.S. Trade Representative, (202) 395-5663.

In addition, there are a number of outstanding publications available:

• **Marketing in Canada and Guide to Exporting Procedures** are compre-

hensive guides to selling, investing, and shipping goods to Canada. The first book covers topics ranging from the nature of the market and distribution channels to labor and taxation. The second covers everything you should know about required export paperwork and includes samples of correctly completed certificates of origin, Canadian customs invoices, and U.S. shipper's export declarations. Both are available free by writing the Office of Canada, U.S. Department of Commerce, International Trade Administration, Room 3033, Washington, D.C. 20230.

The Office of Canada also will send you free copies of specialty publications, including *Government Procurement Opportunities, Marketing Services in Canada, Customs Procedures, and Border Crossing Procedures*.

• **U.S./Canada FTA Customs Administration** is a free, 72-page guide to getting your goods and people across the border smoothly. It is available by writing the U.S. Customs Service, Room 1328, 1301 Constitution Ave., N.W., Washington, D.C. 20229.

• **Free Trade 1989** is the name of a special edition of *Business First* magazine of Buffalo, N.Y. It provides an excellent overview of the agreement and useful chapters on topics such as obtaining customs brokers, warehouses, industrial parks, and foreign-trade zones; ports of entry; obtaining bank and public financing; and finding marketing representatives. The cost is \$5, plus \$2 for postage and handling, from *Business First*, 361 Delaware Ave., Suite 200, Buffalo, N.Y. 14202.

• **The Businessman's Guide to Free Trade** is a comprehensive yet plainly written guide to all aspects of the pact written in the form of questions and answers. It is free to *Nation's Business* subscribers (please include \$4 for postage and handling) from Free Trade Consultants, 5195 Main St., Buffalo, N.Y. 14231.

• **Investment in Canada** is a 115-page guide to all aspects of this topic, including regulation of foreign ownership and forms of business organization. It is available free by writing KPMG Peat Marwick, 700 Empire Tower, Buffalo, N.Y. 14202.

• **Bulletin of Business Opportunities** is a weekly listing of Canadian government contract lettings. For subscription information write Supply and Services Canada, Ottawa, Ontario, Canada K1A 0S5.





may mean trade life or death. Derek H. Burney, Canadian ambassador to the U.S., puts it this way: "For a small business, a tariff can often be the difference between a profit and a loss, a clinched sale and a lost opportunity."

U.S. Trade Representative Carla Hills says about 200 firms and trade groups already have formally petitioned her office to seek accelerated tariff reductions on about 2,000 products. The Canada-U.S. Trade Commission, a Cabinet-level group charged with solving problems arising under the agreement and negotiating additional provisions, is considering these requests and others by Canadian businesses. (See Page 70 for a summary of the duty-abatement provisions.)

But tariff relief is just one of many reasons almost everyone familiar with the agreement is touting it as a boon to

small U.S. firms. Cited almost as often are customs and immigration provisions of the pact. In the past, many opportunities have gone begging because U.S. small-business people did not want to deal with problems that could arise in moving their sales and service representatives back and forth across the U.S.-Canadian border, says Robert Mathieson, a trade consultant from Dix Hills, N.J., and a member of the Canada-U.S. Relations Committee of the U.S. Chamber of Commerce.

Business travel sometimes was a hassle; other times it was not. So business owners were wary of guaranteeing after-sales service, which made their

products unattractive, Mathieson says.

Under the new agreement, four classes of business people can cross the border under radically expedited procedures. Those classes are business visitors such as sales or service personnel, traders and investors, transferees within companies, and designated professionals. For business travelers, the new procedures are "the difference between being stopped at a red light and driving straight through a green light," says Ian Gent, chairman of the Can-Am Business Council in Buffalo, N.Y.

Still, the agreement does not cut through all the red tape associated with moving people and goods between the countries. In fact, it creates some paperwork—an expanded version of the so-called certificate of origin, now required for all U.S. shipments to Canada.

The U.S.-Canada pact establishes cri-

CHART: SAM WARD

## The Canadian Marketplace

### British Columbia

Population: 3 million  
Gross Domestic Product: \$67 billion  
Unemployment Rate: 9.4%  
Imports: Business machines, construction and mining machinery, motor vehicles, motor-vehicle parts, record players, radios, and television receivers.  
For more information, contact:  
Douglass Allen, Phone: (604) 367-7947  
FAX: (604) 367-7969

### Saskatchewan

Population: 1 million  
Gross Domestic Product: \$18.3 billion  
Unemployment Rate: 8.1%  
Imports: Agricultural implements, fruits and vegetables, industrial chemicals, machinery, motor vehicles.  
For more information, contact:  
Garth Gish, Phone: (306) 787-9071  
FAX: (306) 787-2198

### Ontario

Population: 9.5 million  
Gross Domestic Product: \$248.1 billion  
Unemployment Rate: 5.3%  
Imports: Business machines, machinery and equipment, motor vehicles, motor-vehicle parts and accessories, scientific and professional equipment.  
For more information, contact:  
Desmond Berfield, Phone: (212) 306-1616  
FAX: (212) 858-3195

### Prince Edward Island

Population: 0.1 million  
Gross Domestic Product: \$1.74 billion  
Unemployment Rate: 14.3%  
Imports: Agricultural chemicals, business machines, communications and other electronic equipment, machinery, scientific equipment.  
For more information, contact:  
Dan Baker, Phone: (902) 368-5600  
FAX: (902) 566-4030

### Newfoundland

Population: 0.6 million  
Gross Domestic Product: \$7.6 billion  
Unemployment Rate: 14.5%  
Imports: Aircraft and aircraft parts, crude oil and natural gas, fruits and vegetables, refined petroleum products, ship building and repair.  
For more information, contact:  
Paul Murphy, Phone: (709) 576-5565  
FAX: (709) 576-5938

### Nova Scotia

Population: 0.9 million  
Gross Domestic Product: \$14.2 billion  
Unemployment Rate: 10.4%  
Imports: Crude oil and natural gas, machinery and equipment, motor vehicles, motor-vehicle parts and accessories, refined petroleum products.  
For more information, contact:  
Richard Fletcher, Phone: (902) 424-8959  
FAX: (902) 424-5735

### New Brunswick

Population: 0.7 million  
Gross Domestic Product: \$11.4 billion  
Unemployment Rate: 12.1%  
Imports: Crude oil and natural gas, fruits and vegetables, refined petroleum products, machinery and equipment.  
For more information, contact:  
John G. Fudge, Phone: (506) 453-3981  
FAX: (506) 453-7904

### Quebec

Population: 5.6 million  
Gross Domestic Product: \$144.5 billion  
Unemployment Rate: 9.6%  
Imports: Aircraft and aircraft parts, communications and other electronic equipment, crude oil and natural gas, industrial chemicals, machinery.  
For more information, contact:  
Francine Dumont, Phone: (514) 982-3013

### Manitoba

Population: 1.1 million  
Gross Domestic Product: \$21.6 billion  
Unemployment Rate: 7.8%  
Imports: Agricultural implements, aircraft and aircraft parts, business machines, machinery and equipment, motor vehicles.  
For more information, contact:  
Pat Leslie, Phone: (204) 945-2287  
FAX: (204) 957-1793

### Alberta

Population: 2.4 million  
Gross Domestic Product: \$63.2 billion  
Unemployment Rate: 7.5%  
Imports: Aircraft and aircraft parts, construction and mining machinery, fruits and vegetables, machinery, scientific and professional equipment.  
For more information, contact:  
George Adorjany, Phone: (403) 422-5263  
FAX: (403) 422-0487



## INTERNATIONAL TRADE



teria for determining the countries of origin for goods entering either country from the other, to prevent goods made outside the U.S. and Canada from qualifying for preferential tariff treatment. Some small-business owners whose products contain one or more foreign components are having a tough time filling out the certificate properly because of its requirements for identifying each component's country of origin and other characteristics.

Carlton L. Brainard, director of the Buffalo, N.Y., district office of the U.S. Customs Service, acknowledges that the new form can be complex. He suggests that all novice exporters to Canada read Customs' 72-page guide to the form or attend one of the 25 half-day seminars on the subject scheduled this fall by the U.S. Department of Commerce's Office of Canada. (See the box on Page 68.)

Any difficulties that some firms may encounter with the paperwork requirements are not daunting, however, and they are outweighed by opportunities

that arise from the pact, even beyond tariff abatement and customs reform.

McConnell of the Canada-U.S. Trade Center is enthusiastic about the pact's landmark services language, which the U.S. hopes will be adopted in large part in other bilateral and multilateral trade pacts, including the General Agreement on Tariffs and Trade. Especially helped by the agreement, he notes, are the telecommunications- and financial-services industries, which formerly were tightly restricted under Canadian law.

Trade consultant Mathieson says the agreement's government-procurement provisions should excite small businesses. Others are bullish about cross-border investment or various moneymaking possibilities arising under the pact. (See the box on Page 72 for highlights of the agreement.)

The consensus message is that if

your business is thriving in the U.S. market, it should be profitable in Canada as well. Kathleen Keim, an international economist with the Commerce Department's Office of Canada, says these are hot export products:

● **Medical Equipment.** Fueled by the comprehensive Canadian health-care system, this market is projected at \$1.4 billion in 1989. In 1987, 76 percent of Canada's medical equipment was imported, 78 percent of that from the U.S.

● **Household Furniture.** This market was \$1.3 billion in 1986, and it is growing at an annual rate of 1.5 percent. Almost 23 percent of Canada's furniture is imported, 31 percent of that from the U.S. Tariff reductions will help greatly.

● **Textiles And Apparel.** Canada takes about 20 percent of U.S. textiles and finished textile goods. Tariff cuts will be helpful here, too.

● **Sporting Goods.** In 1987, Canada imported \$1.4 billion in sports gear, 30 percent from the U.S. Especially hot just now are bicycles and parts, snow

## U.S. Products In Canada

Many price-sensitive American products will become much more competitive in the Canadian marketplace as a result of the U.S.-Canada Free-Trade Agreement.

Under the pact, all goods produced by either country will be allowed to cross the border duty-free within 10 years. Tariffs on some products were dropped immediately. Others will be reduced in equal increments until they are eliminated in either five or 10 years.

Before the free-trade agreement took effect last Jan. 1, about 35 percent of U.S. exports to Canada were subject to tariffs averaging about 10 percent (though some tariffs were two to three times that high), according to the U.S. Department of Commerce.

Here are highlights of the tariff-elimination schedule under the agreement. To determine the status of products not listed here or to ask questions about the schedule, contact the Commerce Department's Office of Canada, Room 3033, Washington, D.C. 20230; (202) 377-3101.

### Immediate

Air brakes for railroad cars



PHOTO: JUDY TRAVER—GAMMA LIAISON

*In the new age of free trade, more than 4,000 trucks a day carry goods across the Peace Bridge between Buffalo, N.Y., and Fort Erie, Ontario.*

Animal feeds  
Computers, peripherals, and related equipment  
Ferrous alloys  
Furs and fur garments  
Leather  
Motorcycles  
Needles  
Snow skis  
Skates

Some papermaking machinery  
Some pork products  
Some telecommunications equipment  
Some unprocessed fish  
Unwrought aluminum  
Vending machines and component parts  
Warranty repairs  
Whiskey  
Yeast

### Five Years

Aftermarket auto parts  
Chemicals, including resins but excluding drugs and cosmetics  
Explosives  
Furniture and furniture components  
Hardwood plywood  
Paints  
Paper and paper products  
Printed matter

Some meats, including lamb  
Some telecommunications equipment  
Subway cars

### Ten Years

Appliances  
Beef  
Live animals  
Most agricultural products  
Pleasure craft  
Rail cars  
Softwood plywood  
Steel  
Textiles and apparel  
Tires



## Canada's Trade Shows: Sales Leads On Display

Many U.S. business people who export to Canada say they acquired their first sales leads at trade shows. This is a list of 25 of the largest Canadian trade shows currently scheduled to take place during the remainder of 1989 and in 1990. In addition to dates and locations, the list gives the name and telephone number of a person to contact for more information on each show.

For a more complete list of shows scheduled in Canada, send for a copy of the *Tradeshow 200 Directory*. It is available from Tradeshow Week West, 12223 W. Olympic Blvd., Suite 236, Los Angeles, Calif. 90064-9956; (213) 826-5696. The cost is \$200.

### National Fall Gift Show—Toronto

Sept. 17-21  
Exhibition Place, Toronto  
Jerry Ashton, (416) 445-6641

### Canadian Sporting Goods Association Fall Market/ Toronto

Sept. 24-26  
Toronto International Centre of Commerce  
Gaby Deschamps, (514) 845-6113

### Wood Expo

Sept. 26-28  
British Columbia Place Stadium, Vancouver  
Peter Henderson, (604) 433-5121

### Canadian High Technology Week

Oct. 17-19  
Exhibition Place, Toronto  
Dan Hamilton, (613) 731-9850

### Canadian Computer Show and Conference

Oct. 23-26  
Toronto International Centre of Commerce  
Robert Grainger, (416) 252-7791/(800) 269-0387

### International Interior Design Exposition (IDEX)

Nov. 9-11  
Metro Toronto Convention Centre  
Robert Grainger, (416) 252-7791

### Toronto International Boat Show and Marine Trade Show

Jan. 11-21, 1990  
Exhibition Place, Toronto  
Carol Bell, (416) 593-7333

### Toronto Furniture Market

Jan. 14-17, 1990  
Toronto International Centre of Commerce  
Renée Dufresne, (514) 866-3631

### Canadian Gift & Tableware Association

Spring Show  
Jan. 28-Feb. 1, 1990  
Toronto International Centre of Commerce  
Howard Deverett, (416) 960-8739

### Canadian Toy and Decoration Fair

Jan. 28-Feb. 2, 1990  
Metro Toronto Convention Centre  
Henry Wittenberg, (416) 893-1689

### EXFOR/Canadian Pulp & Paper Association

Meeting  
Jan. 30-Feb. 1, 1990  
Montreal Convention Centre  
Richard C. Gilker, (514) 961-9694

### Alberta Spring Gift Show

Feb. 4-7, 1990  
Edmonton Northlands  
Peter Henderson, (604) 433-5121

### Canadian Hardware Show

Feb. 4-7, 1990  
Exhibition Place, Toronto  
Joe Edwards, (416) 821-3470

### Canadian Sporting Goods Association

International Convention & Exhibition  
Feb. 4-7, 1990  
Place Bonaventure Exhibition Hall, Montreal  
Gaby Deschamps, (514) 845-6113

### Canadian International Farm Equipment Show

Feb. 6-9, 1990  
Toronto International Centre of Commerce  
Dawn Morris, (416) 479-2720

### SALON RENDEZ-VOUS/Hotel & Restaurant

Suppliers Association  
Feb. 11-14, 1990  
Place Bonaventure Exhibition Hall, Montreal  
Jean Cyr, (514) 334-5161

### Manstyle, A Celebration of Men's Fashion

Feb. 18-20, 1990  
Toronto International Centre of Commerce  
Karen Cook, (416) 429-2490

### National Spring Gift Show—Toronto

Feb. 18-22, 1990  
Exhibition Place, Toronto  
Jerry Ashton, (416) 445-6641

### Canadian Environmental Exposition

March 11-13, 1990  
Metro Toronto Convention Centre  
Harold Shield, (416) 444-5225

### Montreal Spring Gift Show

March 18-21, 1990  
Place Bonaventure Exhibition Hall, Montreal  
Margaret Johnston, (416) 445-6641

### Canadian International Automotive Show

May 13-15, 1990  
Metro Toronto Convention Centre  
Joyce Francis, (613) 728-5821

### Canadian Plant Engineering & Machine Tool Show

May 14-17, 1990  
Place Bonaventure Exhibition Hall, Montreal  
Stephen R. Utting, (416) 252-7791

### National Petroleum Show

June 14-16, 1990  
Calgary Tradeshow, Agriculture, and Entertainment Centre  
Judy Hurd, (416) 445-6641

### International Materials Handling & Distribution Show

Sept. 24-27, 1990  
Toronto International Centre of Commerce  
Brian Jones, (416) 445-6641

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N.B.



# Highlights Of The U.S.-Canada Free-Trade Agreement

Following are major points in the detailed, 1,000-page agreement between the U.S. and Canada for achieving freer trade between the two countries:



ILLUSTRATIONS  
JEAN WISENBAUGH

**Rules Of Origin.** Establishes rules for determining exports' country of origin to prevent third-country products from receiving the same favorable treatment given to those produced in the U.S. and Canada. Requires a certificate of origin to accompany each shipment to attest to the fact that goods meet the rules-of-origin requirements.



**Tariffs.** Duties on some products were eliminated Jan. 1, on others in equal 20-percent reductions the first of each year for five years, and on still others in 10-percent reductions each year for 10 years. Lets businesses and trade groups petition for accelerated tariff reductions.



**Services.** Establishes rights of most service businesses to operate across the border under the same rules applied by the host country to its own firms of similar nature. Allows foreign firms to express views during future lawmaking and rulemaking.



**Customs.** Generally eliminates customs user fees by 1994. Seeks to eliminate as many customs formalities as possible.



**Energy.** Bars most quotas, taxes, and other restrictions on energy imports and exports. Allows Canada to import up to 50,000 barrels of Alaskan oil daily.



**Business Travel.** Permits four classes of business people—business visitors such as sales and service personnel, traders and investors, intracompany transferees, and most professionals—to cross the U.S.-Canadian border under expedited customs procedures.



**Nontariff Barriers To Trade.** Eliminates import and export quotas not specifically allowed by the General Agreement on Tariffs and Trade (GATT) or grandfathered by agreement. Bars the use of product standards as trade barriers and mandates mutual recognition of testing labs and certification bodies. However, under some circumstances, temporary import restrictions are allowed, to protect domestic industries.



**Investment.** Provides security to crossborder investors by requiring, with some qualifications, each country to treat the other's investors the same way it treats its own. Commits Canada to raising in stages the threshold for review of direct acquisitions.



**Government Procurement.** Lowers the threshold in both countries at which crossborder firms can compete for federal procurement business to \$25,000 from \$171,000.



**Dispute Settlement.** Establishes a Cabinet-level Canada-U.S. Trade Commission to hear and resolve most differences and to continue negotiations on subsidies and other similar contentious issues not addressed in the agreement.

## INTERNATIONAL TRADE



skis and ski bindings, and roller skates.

● **Building Materials And Products.** This market was more than \$10 billion wholesale in 1987. About 25 percent was imported, 62 percent of that from the U.S.

● **Laboratory Instruments.** This \$380 million market in 1987 is growing at an annual rate of 4 percent. Canadian labs are heavily dependent on imports, with the U.S. share almost 80 percent.

Small-business interest in the agreement has been a pleasant surprise to many in Washington who had anticipated a long, slow educational process. Trade Representative Hills says there are "clear signs" that U.S. entrepreneurs are seizing these hot sales opportunities and others presented by the agreement. "Success stories abound," she says. The Commerce Department has received more than 10,000 phone calls for assistance on doing business under the pact, reports Keim of the Office of Canada.

If you are interested in jumping on the free-trade bandwagon, Jess Fitzpatrick, with years of experience in exporting to Canada, offers this advice:

● **Analyze the salability of your product or service.** Determine if it is needed and if it is competitively priced.

● **Locate markets.** As in the U.S., not all merchandise is suitable for every geographic area. (See Page 69 for a market-summary chart.)

● **Identify the appropriate type of distribution.** Many business people start selling through a trading company or an agent, but others can find interested wholesalers or direct buyers.

● **Learn about the paperwork.** Know the certificate of origin backwards and forwards, and consider retaining a customs broker or freight forwarder.

● **Attend or exhibit at Canadian trade shows.** Trade shows are where the buyers are, and you should be there. (See Page 71 for major scheduled shows.)

For America's small-business community, the bottom line of the U.S.-Canada Free-Trade Agreement is stated clearly by Canada's Ambassador Burney: "The best customer is your neighbor. Go for the market that is right next door. Go for the market that is better known to you than any other foreign market. You will find it more open, more certain, and more profitable than ever before." ■



To order reprints of this article, see Page 80.





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# To Your Health

*Managing well includes managing your own health—advice to help you do that better.*

By Kay Schaefer

## Flying Can Be A Pain In The Neck

Christopher Wolfe (not his real name), a 52-year-old small-business owner in Washington, D.C., flies frequently. He hardly noticed his stiff neck until his wife commented on how often he stretched and rubbed it.

As he rubbed, Wolfe realized that the muscle running up the right side of his neck from the shoulder felt knotted and tender. He took two aspirins and a hot shower, and the pain went away.

But two weeks later, after his next business trip, the pain extended from just below his right ear down the shoulder blade, and the muscle felt knotted again.

A shower and aspirin did not help, and he woke up the next morning with tingling in his fingers as well as stiffness and pain in his neck.

After two days without a change in Wolfe's condition, his physician sent him to me, in my role as a physical therapist.

Wolfe and I realized that his neck pain always started after an airplane trip. Since he must fly frequently, we discussed managing his problem through prevention. He packs everything for his trips in a carry-on bag, which he carried on his right shoulder almost all the time. To ease the shoulder strain, he agreed to use luggage wheels.

But his bag was not the only problem. After his next flight, Wolfe still experienced some stiffness in his neck, and he had some pain in his shoulder blade as well.

He said he felt that sitting in a cramped airplane was the cause of his neck stiffness.

"Airplane neck" is increasing because of increased air travel and reduced seat size.

To alleviate it, I put together a set of exercises for Wolfe to do on the plane. The exercises were designed to be virtually undetectable by the other passengers.

These are five exercises to be performed while sitting, with the number of repetitions for each exercise:

Kay Schaefer, P.T., M.P.A., is a Washington physical therapist.



PHOTO: ROGER POLEY-FIELD, INC.

● **Head roll:** Look down, look up, look right, look left. Ten times.

● **Shoulder shrug:** Raise your shoulders toward your ears and pull the shoulders back, pinching the shoulder blades together. Ten times.

● **Spine stretch:** Stretch your fingertips toward the ceiling while you inhale (stretch from the hips, reducing the pressure on your seat); relax as you exhale. Twice.

● **Spine flex:** Exhale as you bend forward touching your forehead to your knees and your fingers to the floor; inhale as you rise up. Twice. (If you have high or low blood pressure, consult your physician before doing this exercise.)

● **Spine twist:** Turn your shoulders as far to the right as you can, then turn left; you can get an added stretch by pulling yourself around by the back of your seat. Twice.

Wolfe's routine included isometric exercises—muscle resistance without movement. Hold each for 10 seconds—and don't hold your breath, or you'll increase your blood pressure.

● **Leg squeeze:** Place your fists between your knees and squeeze your knees together. Five times.

● **Knee lifts:** Place your right foot on your left and hold it down as you try to lift your left knee; then do the reverse. Five times.

● **Buttock tightening:** Squeeze your buttocks together. Five times.

● **Back press:** Press the back of your head and your shoulders against the seat. Five times.

Wolfe also was advised to stand up against a bulkhead for these exercises:

● **Wall press:** Stand with your back to the wall and achieve a "military posture," with the shoulders back, lower back flattened, and back of the head against the wall. Twice, for one minute each time.

● **Toe-ups:** Rise up on your toes. Ten times.

● **Heel-cord stretch:** With your hands on the wall, and one foot forward and one back, stretch the calf muscle with the heel down on the floor. Once for each leg, holding the position for 10 seconds.

● **Total body stretch:** Raise your arms overhead, reaching your fingers to the ceiling while you inhale; exhale as you relax, curling down to touch your toes while bending your knees. Ten times.

Wolfe performed these exercises on his next business flight and found that he did not have pain afterwards. If your pain is severe or persists more than 24 hours, you should consult a physician; but if you think you may be suffering from "airplane neck," try Christopher Wolfe's approach. **B**



# It's Your Money

*A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.*

By Paul N. Strassels

## TAXES

### Sleeping Easy

Every year, taxpayers and their accountants toil endless hours trying to compile the most accurate tax returns possible. The overriding reason for all the detail is the fear that if some item on a return looks the least bit suspicious, the Internal Revenue Service is certain to call in the taxpayer and go over the return with a fine-tooth comb.

Certainly, audits are time-consuming, and they can be costly. But most returns never get more than a cursory check by the IRS.

Although every return filed by individual and business taxpayers is checked for mathematical accuracy and for what the IRS terms "obvious errors," just about 1 percent of all returns filed are ever seriously examined by IRS agents.

The audit rate figures are in for 1988. For individual returns, the IRS classified each of the more than 103 million returns it received according to its total positive income. (That's the income reported on the return without regard to the various losses, deductions, and credits that the taxpayer could claim.) It audited only 1 million.

Obviously, the more you make, the greater your audit risk. Also, those who itemize their deductions hear from the IRS more often than those who take the standard deduction. If your return is complex and includes securities transactions, partnership losses, and the like, you stand a much greater chance of hearing from the IRS.

Although any return could be selected for audit, the IRS tries to use its resources effectively. That's why itemizers who report more than \$50,000 in income stand the greatest risk. Still, according to the latest statistics, the IRS is able to audit only 2.3 percent of those returns.

The IRS uses different criteria for auditing business tax returns. Major corporations, banks, and the like are audited regularly. After all, catching even a small error on a tax return filed by a multi-billion-dollar company can yield millions of dollars.

When it comes to small and midsized businesses, those that are incorporated stand a greater chance of escaping an audit than those run as partnerships



*Saving all the papers from your purchases and sales of stock may seem irksome—but you'd better do it.*

and sole proprietorships. Partnerships and proprietorships with income over \$100,000 were subject to a 4.2-percent audit rate.

Corporations are audited based on asset values. Only 0.84 percent of those with assets under \$500,000 were audited. The audit rate was 1.1 percent for corporations with assets of \$500,000 to \$1 million, 2.6 percent for corporations with assets of \$1 million to \$5 million, and 7.6 percent for those with assets of \$5 million to \$10 million.

You should always assume that your individual and business tax returns will be audited every year. Keep those substantiating records and receipts handy for at least three years from the time of filing, just in case IRS agents call. But don't be surprised when you don't hear from them.

### Catching Up On Estimated Taxes

If you calculate that you will owe the IRS more than \$500 in income and Social Security taxes after taking into account payroll withholding and the quarterly estimated tax payments that you have already made this year, then keep

in mind that Sept. 15 is the date by which you must bring your estimated-tax account current.

Those who are self-employed (and subject to the 13.02 percent self-employment tax on net earnings), or who collect a substantial amount of income from investments, pensions, annuities, and other sources from which no income tax is withheld, are prime candidates for estimated tax payments.

You should not automatically assume that your September payment will be the same as your April and June payments. You must revise your estimate to account for any changes in your financial circumstances. For example, you may have realized an unanticipated capital gain or loss or purchased expensive equipment that will significantly affect your previous estimates.

### Take Stock Of Your Investments

Calculating the cost basis of your securities can be tedious work when it comes time to report their sale to the IRS, especially when you roll your dividends into additional shares and sell your holdings one chunk at a time. But that is precisely what you must do. So keep all the paperwork on your purchases and sales. You will need it.

When you sell shares of stock or in a mutual fund, specify exactly which



shares you want sold. Otherwise, the IRS assumes that you are disposing of the shares you purchased first. The IRS works on the first-in, first-out theory.

### Combined Salary Cuts Taxes

Many small-business owners perform different functions for each of their businesses. You may be CEO of your firm, controller of one subsidiary, and vice president of another.

Each pays you a salary, which means each pays its share of Social Security taxes. But when your combined salary exceeds \$48,000 (this year's ceiling), the government collects more than its fair share of Social Security taxes.

To sidestep this problem, designate one member firm in your corporate group as its common paymaster. You're allowed to do that as long as the members of the group have at least 50 percent common ownership. That way, you will receive a single paycheck on behalf of all the companies, and you will reduce the combined corporate Social Security tax burden.

### Playing By The Rules

When it comes to taxes, the IRS generally doesn't have to play by the commonly accepted rules that govern debtors and creditors. If you owe a tax deficiency, all the IRS must do is mail you a notice and wait the number of days specified in it for you to send your payment. If you don't, the IRS can do whatever it likes in its own good time. It can attach your bank account, close your business, and even sell your home. In fact, the IRS has six years from the time you get your notice of assessment to go after its money, without ever asking permission from a court.

### STOCK FUNDS

#### Hidden Mutual-Fund Fees

Mutual funds have long been touted as the ideal way for individual investors to play the stock market. At this point, though, many investors have started to question the fees and commissions (loads) charged by their funds. Sometimes those expenses are not clearly stated in a fund's prospectus.

Take your stock mutual fund. You probably have the option of taking your dividends in cash or rolling them over into additional shares of the fund. Does your stock fund charge you a commission for rolling over your dividends? Most mutual funds perform that service at no additional cost to their investors, but about 100 funds with \$70 billion in assets do charge a commission—and not all of them are candid with their investors, informing them clearly that such a fee is levied.

### CHARITIES

#### Generous To A Fault

When you give cash or goods to your church or synagogue, the United Way, Cancer Society, Heart Fund, Salvation Army, Goodwill, Scouts, and similar groups, most of your largess winds up supporting the charitable purpose you intend.

Some so-called charities are not so well-intentioned. Before making a donation, ask what percentage of your gift



PHOTO: MICHAEL PETRICK-FOCUS INC.

*When you give to the Boy Scouts, you've made a wise investment—but not all "charities" are trustworthy.*

### BORROWING

#### Home-Equity Loans Acquire A New Look

If you plan to take out a home-equity loan within the next few months, you should be aware of what happens Nov. 6, the effective date of a new federal law that will profoundly affect the handling of newly placed home-equity loans and lines of credit.

You can expect more details about the advertised interest rate, fewer teaser rates, greater certainty about fees and how interest is computed, and closer scrutiny of your credit history by lenders. In most cases, the terms of the loan will remain in force for the life of the loan. Lenders will not be allowed to change them unilaterally. Also, lenders will move away from lines of credit that let you repay interest only. Lenders will still be able to call loans if you are late with your payments or have put the house at risk.

As for lines of credit, expect your bank to restrict them if you fall on hard times, or your home loses value, or interest rates rise beyond the cap in your loan agreement.

will actually go to promote the charitable purpose of the organization, and try to find out how much will wind up lining the pockets of the organization's officials and promoters. A charitable organization is legally required to provide a financial statement to a potential donor requesting one.

The Council of Better Business Bureaus, headquartered in Arlington, Va., and the National Charities Information Bureau, in Washington, D.C., are sources for checking on organizations appealing for funds. Local Better Business Bureaus or consumer agencies are places you can go for information on local appeals.

### INSURANCE

#### Getting The Insurance Protection You Pay For

Shopping for insurance can be frustrating, especially when you find that many insurers are not interested in writing policies for individuals or even small groups. This is especially true for health coverage. Even when you find a company that will write a policy, the premium is often out of sight, with sizable rate hikes all but assured every year. Still, you have little choice but to pay.

Some insurers with excellent track records specialize in small-business plans, and they charge rates that are substantially below those charged by some of the biggest names in the industry. Ask colleagues and others for recommendations.

When insuring with lesser-known companies, however, it pays to be vigilant. There is more to insurance shopping than just finding the lowest premium. Consider the company's financial strength, record on paying claims, and service to its policyholders.

Recently, one health insurer based in Pennsylvania was forced to close its doors, leaving policyholders high and dry. They are out their premiums, which the company continued to collect months after it ceased paying claims. The state government has notified policyholders that there is enough money in reserve to honor only 50 percent of the claims that have been submitted. The individual policyholders must pay the difference to the doctors, hospitals, and others to whom they owe money. In this case, cheaper was definitely not better.



*Paul N. Strassels, president of Money Matters Inc., Rapid City, S.D., is a tax-law specialist and financial adviser.*



# For Your Tax File

*What you need to know to keep taxes from overtaxing you.*

By Gerald W. Padwe, C.P.A.

## DONATIONS

### Charity Stops At Home

People who have vacation homes as well as charitable impulses will not be pleased by a ruling from the Internal Revenue Service that puts the agency in the running for a "Grinch of the Year" award in 1989.

Assume John and Jane Jones own a vacation home at the beach. During the year, they rent the home for 80 days and also use it for a two-week family vacation.

In addition, they donate one week's use to Charity A. The charity then auctions off the donation at one of its fund-raisers.

Sam and Susan Smith win the auction. They pay the charity an amount equal to the Joneses' standard one-week rental for the beach house and occupy it for a week.

In these circumstances, the IRS has ruled, nobody wins except Charity A and the government; neither the Joneses nor the Smiths are eligible for tax deductions arising from their generosity, and the Joneses have run afoul of the vacation-home deduction limitations.

When property is used for both rental purposes and personal living, deductions attributable to it—such as depreciation, taxes, repairs, interest, maintenance, and advertising—are subject to limits. The deductions generally may not exceed the rental income derived from the property.

That limit doesn't apply if the property owner's personal use is 14 days or fewer or, if the use exceeds 14 days, the number of days used by the owner is no more than 10 percent of the days the property is rented at a fair rental amount.

As an aside, the amount of mortgage interest and property taxes not deductible under the above limitations may



PHOTO: SEVERETT C. JOHNSON-FOLIO, INC.

*Your sand castle is your escape—but not from taxes, especially if you spend much time there, and even if you charitably let others use it.*

still be taken as a tax deduction under the regular rules that apply to these expenses.

While the Smiths paid a fair rental amount to Charity A, the IRS ruling takes the position that the donation of the one-week use by the Joneses is not "business use" of the property; therefore, it must be "personal use." As such, the seven days of occupancy by

the Smiths is added to the 14 days of vacation use by the Joneses.

Thus, the Joneses have exceeded the limits permitted for full deductibility of vacation-home expenses: 21 days is greater than either 14 days or 10 percent of the 80 days that the Joneses rented the property to others.

Therefore, vacation-property deductions will be limited to the rental received by the Joneses, which will not include the one-week rental received by Charity A for the Smiths' occupancy.

To add insult to injury, the ruling reminds John and Jane that they are not entitled to a contribution deduction for donating the one-week time slot to Charity A. Under income-tax regulations, a gift of the right to use property is not a deductible contribution. The gift must consist of the property itself.

Finally, the Smiths are not entitled to a charitable contribution for the amount they paid Charity A, since they received valuable consideration in return: the use of the vacation home for one week.

"Grinch of the Year?" You'd better believe it!

## DEDUCTIONS

### Action On Passive Activities

Recent IRS regulations on "passive activities" may prompt cocktail-party small talk such as "What activities do you participate in?"

The notion of passive activities, created by the 1986 Tax Reform Act to prevent tax-shelter abuses, is that deductions from activities in which a taxpayer does not materially participate cannot be used to reduce taxable income from sources such as salaries, wages, interest, and dividends.

The IRS defined "participation" in regulations issued in 1988. In its most recent rules on the subject, the IRS attempts to define "activity." These regulations break down business and rental operations into units of business called "undertakings." Generally, an undertaking consists of business or rental operations taking place at the

same location and owned by the same or related taxpayers. Undertakings that are similar in nature and controlled by the same taxpayers are then combined into an "activity." Separate undertakings not controlled by the same or related taxpayers are separate activities.

The new regulations permit rental real-estate undertakings to be combined into one activity or divided into separate activities, as the taxpayers choose. Once combined or divided, however, the decision is irrevocable.

After an activity has been established, taxpayers must determine whether their participation in the activity is material, active, or passive, under the previously issued regulations. Only then can they determine whether the deductions and credits from the activity can be used to offset salaries, wages, interest, and dividend income. **18**



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.



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## ENTREPRENEURIAL/FRANCHISE OPPORTUNITIES

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# Where I Stand

*Results of this monthly poll are forwarded to top government officials in the White House and Congress.*

## 1. Extend Tax-Free Status Of Tuition Benefits?

Some in Congress advocate permanent labor pool will yield fewer fully quali-

## Where I Stand VOTE On These Issues

	yes	no	unsure
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## Verdicts On July Poll

*Here is how readers responded to the questions in the July issue.*

	Yes	No	Undecided
Adopt a balanced-budget amendment to the Constitution?	87%	8%	5%
Permit the president to veto line items in spending bills?	92%	6%	2%
Should Congress adopt "common-sense" budgeting?	86%	6%	8%



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 Insurance Co. 30  
 Office Mates 12  
 Quality Inns International 96  
 Ryder Truck Rental, Inc. 83  
 Southwestern Bell 80  
 Swintec Corp. 51  
 TRC Temporary Services 36  
 Tillinghast 5  
 US West Corporate 26  
 US West Public Phones 61  
 United States Postal Service 37  
 Varco-Pruden Buildings 7  
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# Where I Stand

*Results of this monthly poll are forwarded to top government officials in the White House and Congress.*

## 1. Extend Tax-Free Status Of Tuition Benefits?

Some in Congress advocate permanent status for the deductibility of all employer-paid tuition. Before this benefit expired last Dec. 31, about 70 percent of firms reimbursed employees for courses taken to upgrade skills. Proponents believe businesses will find it increasingly necessary to send workers back to school because the shrinking

labor pool will yield fewer fully qualified applicants. If employer-paid tuition is not deductible, proponents contend, lower-paid employees will be discouraged from seeking needed training. Opponents contend taxpayers cannot afford to subsidize training now. Should Congress extend the tax-free status of all employer-paid tuition?

## 2. Mandate Costs Of Workplace Changes For Handicapped?

A bill before Congress would prohibit discrimination against disabled people and require most employers to make "reasonable" accommodations when hiring the disabled. The bill also would allow people to sue if they believe they are "about to be discriminated against." Proponents hail the bill as a landmark proposal to promote equal

employment of the handicapped. While opponents support efforts to prohibit discrimination against the disabled, they contend the bill could bankrupt some small companies and financially harm others. Should businesses be required to bear the full cost of promoting employment of the handicapped and accept new legal liability?

## 3. Increase Foreign Aid Tied To Trade?


Some industrialized nations provide financial assistance to developing nations through a mix of export credits and foreign aid, enabling firms in these aid-donor nations to land major overseas contracts. Though the U.S. has opposed this practice, it too provides some "tied aid" financing to force others to abandon the practice by making it very ex-

pensive. But the U.S. budget for tied aid is minuscule and has been virtually no deterrent to the practice. Those who oppose increasing U.S. tied aid contend its expanded use by the U.S. would only perpetuate the practice, though they admit it likely would reduce our trade deficit. Should the U.S. embrace tied aid until others abandon it?

### Verdicts On July Poll

*Here is how readers responded to the questions in the July issue.*

	Yes	No	Undecided
Adopt a balanced-budget amendment to the Constitution?	87%	8%	5%
Permit the president to veto line items in spending bills?	92%	6%	2%
Should Congress adopt "common-sense" budgeting?	86%	6%	8%

 Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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- Swintee Corp. 51
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- Tillinghast 5
- US West Corporate 26
- US West Public Phones 61
- United States Postal Service 37
- Varco-Pruden Buildings 7
- Volvo GM Heavy Truck Corp. 65



# Direct Line

*In which experts answer our readers' questions about starting and running their businesses.*

## ENTERTAINMENT

### Getting Into Movies

I want to open a cinema. I would appreciate help in locating film supplies and all other necessary information.  
*C.D., Puyallup, Wash.*

A good way to start is by contacting cinema managers and owners in your area. Find out what their experiences were both before and after they opened their doors. Then determine if your area can support another cinema. You may want to hire a professional market researcher to conduct the study.

A helpful resource group for the industry is the National Association of Theatre Owners, 4605 Lankersham Blvd., Suite 340, North Hollywood, Calif. 91602-1891; (818) 506-1778.

*Box Office* magazine is useful for news on industry suppliers, distributors, and other related issues. Call the magazine's editor, Dan Johnson, at (312) 271-0425.



ILLUSTRATIONS: ELIZABETH WOLF

## TRAVEL

### Here's The Ticket

I am interested in opening a travel agency. Can you suggest sources for assisting me? Is there a trade association of travel agents?

*M.H., Bountiful, Utah*

First, you should contact the Airline Reporting Corp., 1709 New York Ave., N.W., Washington, D.C. 20006; (202) 626-8000. The ARC offers a free handbook on how to open an agency. It also certifies agents, giving them the legal status to issue standardized airline tickets. According to the American Society of Travel Agents (ASTA), a membership organization, if you lack certification, you could plan tours but could not write travel tickets; they would have to be obtained from a certified agent. The ARC's certification fee is \$300.

ASTA also offers free brochures on starting an agency, including how to get financing, building a network of re-



sources, and common pitfalls to avoid during start-up. To order, call or write ASTA at 1101 King St., Suite 200, Alexandria, Va. 22314; (703) 739-2782.

A book you may find useful is *How To Open Your Own Travel Agency*, by Douglas Thompson (\$29.95; Dendrobium Books, 76 Gough St., San Francisco, Calif. 94102; 415/558-8444).

## RECREATION

### Rolling Right Along

My husband and I are interested in operating a roller-skating rink, but we have no idea how to find out about the cost of building and operating one. Can you refer us to someone who is knowledgeable and could provide such information?

*M.B., Woodbury, N.J.*

The Roller Skating Rink Operators Association of America (RSROAA) represents approximately 1,000 roller-skating-rink owners and operators across the country, and it offers a wide variety of materials on the business. Dianne Heidtbrink of the association says, "We can get you pointed in the right directions." The group sells a fact book for \$25 and will include the names of feasibility and planning consultants and liability underwriters for roller-rink insurance purposes. Contact Heidtbrink at (402) 489-8811 or write to RSROAA, 7700 A Street, Lincoln, Neb. 68510.



## APPAREL

### Diaper Service

I would like to start my own diaper business, but I have no idea what it takes to get it started. Can you refer me to someone who can help?

*L.T., Yarmouth, Maine*

Louise MacFarland of the National Association of Diaper Services (NADS) says she receives 50 to 100 calls weekly from people interested in opening a diaper service. "We have no members in Maine," she says, "so it would be a great place to open one." MacFarland says the diaper-service industry is on the upswing again partly because a number of parents are expressing preferences for natural fibers such as cotton for their children.

NADS offers information on suppliers, technical know-how, and other start-up facts. Call MacFarland at (215) 569-3650, or write to NADS, 2017 Walnut St., Philadelphia, Pa. 19103.



### Clothes Connections

I want to open an upscale men's retail clothing store. Where do I go to find manufacturers, wholesalers, distributors, and other suppliers? Is there information available about various apparel shows?

*C.H., West Plains, Mo.*

The Menswear Retailers of America (MRA) offers a free information kit, "Establishing a Men's Store." It contains a resource directory, a promotion calendar, and seminar information. Contact Ralph Beatty at MRA, 2011 I Street, N.W., Washington, D.C. 20006; (202) 347-1932.

For information on the two major apparel shows on menswear, call the sponsors directly: the National Association of Men's Sportswear Buyers, in New York City, (212) 391-8580; and the Men's Apparel Guild, in Los Angeles, (213) 748-6323.



## SERVICE

## Quick Changes

I am 23 years old and want to open a business that offers quick oil changes. Any information will be appreciated.  
*A.C., Kansas City, Mo.*



The Convenient Automotive Services Institute (CASI), whose members range from small auto-repair shops to major franchise corporations, offers start-up information on the quick-oil-change business and can help you decide whether to be an independent firm or a franchise. The CASI's director of member services, Arlene Lake, suggests you talk with established owners about their experiences. For more information and for general advice, contact the CASI, P.O. Box 34595, Bethesda, Md. 20817; (301) 897-3191.

Also see "Franchises Under The Hood," on Page 54 of this issue.

## A Basic Menu

I have \$5,000 with which to open a restaurant. I have no experience in the restaurant business. Where do you suggest I begin?  
*Y.L., Mt. Vernon, N.Y.*

Mary Edwards, in the information-services section of the National Restaurant Association, says the organization receives about 26,000 calls annually on this subject. "Whether or not \$5,000 is sufficient to open a restaurant depends on the size, location, and type of food business you want to open," Edwards says. She recommends that you begin by reading everything you can about all kinds of restaurants. The association has a starter packet of information that contains articles on the industry and information on association services such as seminars and study groups. Contact the association at 1200 17th St., N.W., Washington, D.C. 20036-3097; (202) 331-5900.

## RECYCLING

## Over And Over Again

I am interested in opening a reclamation and recycling center. Where can I find information on this subject?  
*R.B., Metairie, La.*

Lisa Haley, with the Governmental Refuse Collection and Disposal Association

## DISTRIBUTION

## Branch Water

We are a small water-bottling company supplying local mines with water. We want to branch out and are looking for distributors. How do we do this?  
*J.F., Summersville, W.Va.*

The International Bottled Water Association has 600 to 700 members—manufacturers, distributors, and suppliers—and offers them names of contacts and dates for trade shows.

If you join, your dues would be based on your gross annual sales and the segment of the industry you're in.

For more information, contact the organization's public-relations manager, Geary Campbell, at 113 N. Henry St., Alexandria, Va. 22314.

## RETAILING

## Flying Start

I want to start a pet shop that would specialize in selling live birds. Where can I find information on this subject? What licenses will I need?  
*L.E., Gaithersburg, Md.*

To operate such a store in Montgomery County, Md., you will need an Exotic Bird Permit. The permit is free and can be obtained by calling the Montgomery County Health Department, Division of Licensure and Regulatory Services, at (301) 217-7272. For information on retailers, manufacturers, distributors, and general training on the subject, contact the Pet Industry Joint Advisory Council, 1710 Rhode Island Ave., N.W., 2nd Floor, Washington, D.C. 20036; (202) 452-1525.



tion (GRCDA), invites you to contact her at (301) 585-2898. The GRCDA is starting a "peer match" program to help people start recycling centers. The association will pay half the travel costs to bring together the program's participants. For more information, write GRCDA, Box 7219, Silver Spring, Md. 20910.

## HEALTH

## Fit To Work

I have been trying to do research on the benefits of a fitness program for a company and its employees. I have tried various libraries and bookstores, but there really isn't much information on the subject. Where can I find some?  
*T.L., Woodbridge, N.J.*

About 30,000 corporate fitness programs are now in operation nationwide, says Jim Clayton, executive director of the Association for Fitness in Business (AFB). Clayton's organization specializes in offering information on how to structure a corporate fitness program. The AFB is an organization of fitness directors, physicians, benefits managers, product manufacturers, and health-policy experts. Write or call Clayton at AFB, 310 N. Alabama, Suite A100, Indianapolis, Ind. 46204; (317) 636-6621.



## WOMEN

## Making Hay

Are there any government grants available for a woman to start her own business in the hay industry?  
*T.E., Thousand Oaks, Calif.*

The Office of Women's Business Ownership (OWBO), which oversees the Women's Business Ownership Program at the Small Business Administration, offers national seminars, conferences, forums, and trade missions on business start-ups for women and can offer advice on funding sources. Contact the OWBO at 1441 L Street, N.W., Washington, D.C. 20416; (202) 653-7954.

Also contact the National Hay Association. Write or call Carol Gates at the association, Box 1059, Jackson, Miss., 39204; (517) 782-2688. **MB**

## HOW TO ASK

Have questions about starting or running a business? Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of *Direct Line* have compiled the most-asked questions into the compact "Your Small Business Survival Guide," at \$3 a copy. To order, call (202) 463-5433 or write to Diane Lewis at the address above.



# New Name; Same Bad Idea

By Warren T. Brookes



In 1961, President Dwight Eisenhower's farewell address warned of a developing "military-industrial complex" that he said could endanger both our freedom and our private economy.

In 1989, however, another Republican president is actively pushing a "military-industrial complex" policy by another name: "industry-led partnerships with government." The centerpiece of President Bush's "industrial policy" is the government-aided "consortium" of companies with similar technological capabilities and interests. But choosing one group of companies over another may promote unfair competition and stifle the innovation it is designed to promote.

The leading governmental promoter of consortia is a unit in the Defense Department with a daunting title: the Defense Advanced Research Projects Agency. DARPA was formed in 1958 in direct response to the Russians' launch of Sputnik, and much of the agency's work has been to fund research on advanced technologies—from lasers to Stealth—to prevent another such Soviet "surprise." But in recent years, a growing share of DARPA's discretionary budget has gone into general computer research, which has broad commercial applications.

Indeed, C. Gordon Bell, head of research for the Ardent Computer Corp., told *The New York Times* last March that "DARPA is the sole driver of computer technology. That's it, period."

It is only natural, then, that when Commerce Secretary Robert Mosbacher starts down the dangerously uncharted "industrial-policy" road, namely, the direct government subsidy of commercial enterprise, he should turn to the one agency already doing it. This year, DARPA is pouring \$525 million—over 40 percent of its \$1.3-billion budget—directly into industrial applications, all going to the semiconductor and computer industries—except for \$30 million going to high-definition television (HDTV).

Dr. Craig Fields, DARPA's director, advocates using government funds to seed and speed basic research through consortia. His best-known consortium is Sematech, a computer-chip research-and-development enterprise organized by 14 member companies of the Semiconductor Industry Association (SIA); 40 percent of its \$250-million annual budget comes directly from DARPA.

Fields told a hearing of the Joint Economic Committee of Congress (JEC) on June 8 that "new technology is being developed in record time at Sematech, and at a cost to

the members—including the federal government—significantly lower than by other means." Fields went to Capitol Hill to support the testimony of still another new consortium designer, Ralph Gomory, a retired IBM senior vice president for science and technology. He is the guiding genius behind the new Consortium for Superconducting Electronics, designed to speed the development of this new technology for which, Gomory says, the Japanese "have the largest program outside of the U.S."

That consortium, which includes the government-subsidized Lincoln Laboratories, is already assured of \$25 million in DARPA money to go with the \$10 million from participants. Gomory told friendly JEC members that "to the extent Congress can provide an economic and legal environment where such consortia can be employed and assist in the funding of those [consortia] that are vital to our national interests, strengthened American competitiveness will result."

But the rub comes in those words "assist in the funding," which means government picks "winners" on which to bet taxpayers' money. That automatically makes the rest of the nation's unchosen industries and businesses "losers."

That approach will present Congress with what economist Claude Barfield of the American Enterprise Institute warned against: "a witch's brew of proposals for massive public-sector intervention."

Other industry groups now are descending on Capitol Hill to try to become chosen "winners" of a political marketplace. Barfield cites as a good example the rush to give taxpayer money to HDTV, warning that "a fierce struggle looms among existing and emerging economic and political interest groups. . . . Such a snakepit of private agendas is an unlikely setting for the efficient use of

public resources."

Indeed, it threatens the potential success of all those firms, especially the new venture-capital companies that do not yet enjoy such political clout and access.

What is unnecessary about this "industrial policy" drive is that the relative productivity position of the U.S. has been rising strongly.

Despite the hand wringing, U.S. manufacturing productivity—up sharply since 1980—is now 50 percent higher than Japan's or Germany's, according to the latest analysis by the Organization for Economic Cooperation and Development.

Small wonder economist Barfield suggests "the Pentagon should be sent back to the barracks with the reminder that the department that gave us the high-tech \$600 toilet seat is the last place one would look for guidance through the uncharted maze of market economies." ■

*The rub comes [when] government picks "winners" on which to bet taxpayers' money. That automatically makes the rest of the nation's unchosen industries and businesses "losers" and threatens the potential success of all those firms.*

Warren T. Brookes is a nationally syndicated columnist on economic issues.



# Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

## Tax Incentives For Education

The tax-free status of employee educational assistance (EEA)—Section 127 of the Internal Revenue Code—expired on Dec. 31, 1988. Although significant bipartisan support exists to extend EEA's tax-free status permanently, Congress may not do so before the end of 1989.

H.R. 2037, the Employee Educational Assistance Act of 1989, introduced by Rep. Frank Guarini, D-N.J., would permanently reinstate this important employee benefit. S. 260 is a similar bill, introduced by Sen. Daniel Patrick Moynihan, D-N.Y. The major obstacle to its renewal is its impact on the federal budget deficit.

The favorable tax treatment of EEA, also known as employer-provided tuition reimbursement, was established in 1979 and authorized for five years, and it was extended through various legislative measures. In addition, its benefits cap was set at \$5,250 per year in 1986.



PHOTO: © JEFF ZARUBA—FOLO INC.

Employers increasingly have provided assistance to their employees to further their education and to upgrade their job skills. Support for reinstatement of EEA comes from a coalition of more than 130 businesses and education and labor representatives.

Contact your representative and senators to urge their support of the permanent reinstatement of Section 127 of the Internal Revenue Code.

## Early-Retirement Benefits

Employers' ability and incentive to offer early-retirement benefit packages are being severely threatened. House and Senate committees have approved bills that would restrict the use of employee waivers of rights under the federal law against age discrimination.

The House Education and Labor Committee approved legislation—H.R. 1432, the Age Discrimination in Employment Waiver Protection Act of 1989—introduced by Rep. Augustus Hawkins, D-Calif. The vote was 21-13.

Republicans supported an alternative offered by Rep. Steve Gunderson, R-Wis., which affords much more latitude for waivers and would expand employee protections.

By an 11-5 vote, the Senate Labor and Human Resources Committee approved S. 54; it is similar to the measure approved by the House panel and was introduced by Sen. Howard Metzenbaum, D-Ohio.

Republicans supported a measure offered by Sen. Orrin Hatch, R-Utah, and Sen. James Jeffords, R-Vt., which is similar to the Gunderson substitute.

H.R. 1432 and S. 54 prohibit waivers of rights provided in the Age Discrimination in Employment Act (ADEA) unless such waivers are part of a settlement of a previously filed discrimination claim or charge. This prohibition would encourage litigation and also would create a major disincentive for employers to offer benefit, retirement, or severance packages beyond those legally required.

Urge your senators to oppose S. 54 and support the Hatch-Jeffords substitute; urge your representative to oppose H.R. 1432 and support the Gunderson measure.

## New Minimum-Wage Bills

Following President Bush's veto of minimum-wage legislation, several members of Congress offered new minimum-wage proposals. Sen. Edward M. Kennedy, D-Mass., introduced S. 1182, which is identical to the vetoed bill. It would increase the minimum wage to \$4.55 over three years, establish a 60-day training wage for workers with no work history, and create a minimum-wage review board to make annual recommendations to Congress on increases in the pay level.

In the House of Representatives, H.R. 2710, introduced by Rep. Austin J. Murphy, D-Pa., would increase the minimum to \$4.25 over two years, establish a two-month training wage for first jobs only, and provide for a wage-review board. The proposed \$4.25 rate may allow some members of Congress who voted to uphold President Bush's veto to support Murphy's bill. While the president vetoed a Democratic bill calling for a \$4.55 wage, he has announced support for raising the present minimum of \$3.35 to \$4.25 over three years, provided the increase is tied to a six-month training wage.

H.R. 2637, introduced by Rep. William F. Goodling, R-Pa., would increase the minimum wage to \$4.25 over three years, provide for a four-month training wage for new hires, and expand the earned-income tax credit to provide tax credits to low- and middle-income workers based on the number and ages of their dependents.

Urge your representative and senators to oppose minimum-wage increases, which would reduce job opportunities while doing little to help the working poor.



# Editorial

*Fragmented product-liability laws stifle research, raise prices, and eliminate jobs. A reform drive deserves support.*

## Reform The Product-Liability System To Prevent Further Economic Harm

Consider the public reaction to a proposed consumer-protection plan that would:

- Raise prices;
- Require consumers injured by defective products to wait years to collect damages;
- Keep lifesaving drugs and medical equipment off the market;
- Curtail investments in small businesses;
- Deprive workers of jobs;
- Disadvantage American companies in international trade.

It's easy to assume that an outraged public would overwhelmingly reject any such proposal, along with any lawmaker who supported it. The reality, however, is that this country has unwittingly come under just such a plan through the workings of the current product-liability system. And self-styled consumer advocates seek political gain by defending this indefensible system on the ground that it disciplines businesses.

The original purpose of those laws was to allow an individual injured by a defective product to seek redress from the party at fault. But that system based on traditional tort law has become badly skewed.

One major problem is the practice of awarding punitive damages that range into tens of millions of dollars in addition to any award for actual injury or economic loss. Another is the "deep pockets" tactic, under which a plaintiff targets the richest of several potential defendants, regardless of that party's degree of fault.

There are other cracks in the system. Companies can remain liable indefinitely for lawsuits based on products made many years ago and on risks not apparent when the product was made.

Product-liability laws vary from state to state, leaving business without uniform standards for achieving safety goals. The net result is a system that encourages the filing of damage suits, no matter how frivolous, and makes it far more difficult for companies to defend themselves.

The national economy pays a heavy price for this confusing, illogical, and fragmented approach to a basic legal issue. In the past five years alone, nearly \$210 billion that might have gone into business expansion, research, and investment has been spent to pay liability claims and legal costs. One result is higher prices. Another is fewer

jobs as companies terminate operations.

Self-appointed consumer advocates to the contrary, the consumer suffers along with the businesses. Because of liability concerns, only one U.S. company still makes the combined measles, mumps, and rubella vaccine. Only two make the combined diphtheria, tetanus, and pertussis vaccine.

Critics of the present system also note that foreign competitors of U.S. companies often have product-liability costs 20 to 50 times lower than those of American companies, giving them a strong price edge.

In view of the many factors cited above, the need for product-liability reform has long been obvious. Indeed, the first call for reasonable changes was made in Congress more than 10 years ago.

The anti-consumer thrust of the present system has become increasingly apparent since then. Business is highly optimistic that a bipartisan reform drive launched recently on Capitol Hill will provide the impetus needed to achieve reform.

The principal sponsors of the effort, contained in S. 1400, are Sens. Robert W. Kasten Jr., R-Wis.; Daniel K. Inouye, D-Hawaii; John C. Danforth, R-Mo.; and John D. Rockefeller IV, D-W. Va.

Speaking for the group at a kickoff rally sponsored by the Product Liability Alliance, Kasten declared that the legislation was needed because "consumers are being made victims of a system that is supposed to protect them. It's a rip-off, and it's got to change." Rockefeller said that "inability to obtain affordable product-liability insurance" was dampening innovation by smaller companies.

The Senate reform bill, which has drawn strong business support, would establish uniform product-liability standards, abolish the "deep pockets" tactic for noneconomic damages, deny compensation to persons whose intoxication or drug abuse was the primary cause of their injuries, establish a statute of limitations ranging to 25 years, establish the principle that punitive damages should be awarded only for egregious conduct, and encourage expedited settlement of lawsuits.

Those proposals are fair and reasonable from the perspective of consumers as well as business. They deserve the support of every member of Congress. ■



A business rally backing a bipartisan bill on product-liability reform was addressed by Sens. Kasten, above, and Rockefeller, who are among the key sponsors.



PHOTO BY MICHAEL REZA



# Free-Spirited Enterprise

*Fresh thinking from the frontiers of American commerce.*

By Janet Lowenstein

## ON THE MOVE

### For Your Getaway

If airliner motion makes you queasy, take a seat where the ride is steadiest—over the wheels or wings. Or if bad-weather delays get you down, take the train. And in your hotel, "Never use the 'Please make up the room' sign. . . . It's an open invitation for unwanted guests." Such tips are found in *Getting Down To Business Travel: A Guide To Making Your Business Travel More Productive, Profitable and Pleasant*. The free, 56-page guide is issued by the Marriott Business Travel Institute, which studies ways to help travelers and is funded by Marriott Hotels and Resorts. The guide contains more than 200 hints on air and train travel, car rentals, hotels, packing, foreign trips, and technology. The guidebook, the first in a series of projects from the Marriott institute, is available from MBTI, P.O. Box 40114-5114, Philadelphia, Pa. 19106-5114; (215) 351-0901.



ILLUSTRATIONS: SHARON COHEN

### The Cat's Meow

If your favorite hotel isn't giving you all the comforts of home, perhaps you should find one with some creature comfort. The Anderson House, a 100-year-old hotel in Wabasha, Minn., offers guests cats on loan. One of the hotel's 12 cats is delivered to a guest's room in the evening, along with a litter



box and water. The pet is picked up in the morning and returned to its dorm room for the day. There's no fee for the feline, but guests pay up to \$95 per night.

## GAMES PEOPLE PLAY



### It's Only Money

You've heard of the hard sell and the soft sell. Now comes the fun sell.

It's Only Money, a game created by Eric S. Medney of ESM Marketing Group Inc., in Garden City, N.Y., depicts a shopping mall whose 25 "stores" have names such as MasterCard, Seagram's, and HBO. Each firm paid \$30,000 to be on the board. As players move pieces from store to store, they see the names again and again—names that sponsors hope the players will recall when they shop. To jog memories, sponsors include \$250 worth of coupons with the game.

## REALLY MAKING IT

### Stretching Your Megadollar

Caviar lovers, tighten your belts. The Moët Index reports that 30 grams of Petrossian Beluga Caviar cost \$47 in 1988, a 41.4 percent increase over 1987's price. The cost of luxury goods generally went up by 8.7 percent, according to the Moët's survey of the inflation rate of luxury items. For the fifth straight year, the Moët Index rose at a faster rate than the consumer price index, which went up 4.4 percent.

Accompaniments to caviar also cost more. You'll pay \$69.97 for 750 milliliters of Dom Perignon champagne, an increase of 8.5 percent, and a Rolls-Royce Corniche convertible has gone up 12 percent, to \$205,500. But if



you travel in a rented limousine, you'll pay the same \$40 or so that you paid for a one-hour ride last year.

## GIVING THANKS

### Say It With Cookies

Ivy Rose says the best ways to say thank you are edible.

Rose, president of the Chicago-based Corporate Cookies, sends cookies, candies, or nut mixes in boxes decorated with the sender's name, logo, and personal message. Rose says, "Recipients save the box and remember the thank-you."



"IT'S SIMPLE, SON. ONE GENERATION PAYS THE LAST GENERATION'S DEBTS BY ISSUING BONDS FOR THE NEXT GENERATION TO PAY."

## COMING FEATURES IN NATION'S BUSINESS

### The Frugal Marketer

How To Market Successfully On A Shoestring Budget.

### Trucks

What's Coming Down The Road Next Year?

### Business Management

Timely Tips On Overcoming Office Procrastination.

### Family Business

Figuring If Employees Are Compensated Fairly.

### Computers

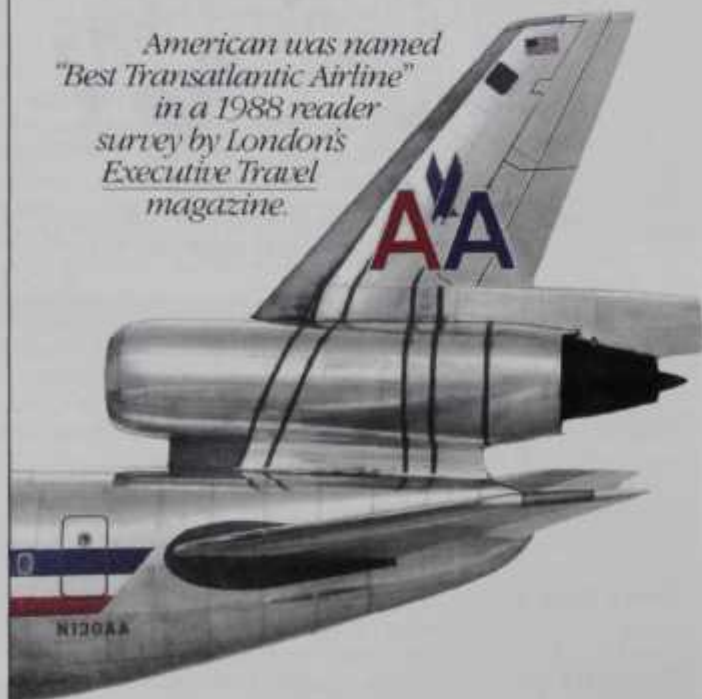
Are Your Computers Giving You The Competitive Edge?





*American Airlines now offers daily service to 13 cities throughout Europe. In fact, we've just added Brussels, Lyon, Hamburg and Stockholm to a list that includes London, Paris, Frankfurt, Madrid, Munich, Duesseldorf, Manchester, Zurich and Geneva.*

*American was named  
"Best Transatlantic Airline"  
in a 1988 reader  
survey by London's  
Executive Travel  
magazine.*



*You'll find thousands of Express Cash  
dispensers throughout Europe, and  
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